

FORMULATING
THE AFRICAN NATIONAL CONGRESS' FOREIGN INVESTMENT POLICY
IN THE TRANSITION TO A POST-APARTHEID SOUTH AFRICA;
PROBLEMS, PRESSURES AND CONSTRAINTS

THESIS

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ABSTRACT

This study examines the wide-ranging and critical factors which have impacted on the African National Congress' (ANC) emerging foreign investment policy. It identifies and analyses the matrix of political and socio-economic factors which have combined at global and national levels to shape ANC policy perspectives towards foreign direct investment (FDI). In so doing, the study adopts an eclectic theoretical and methodological approach. It draws on various theoretical traditions to propose a framework that is heuristic and contingent, rather than axiomatic. With regard to foreign investment, in particular, it recommends a theoretical pluralism emphasising 'engagement' through praxis and sound political (state) action.

The study argues that the ANC has reconsidered many of its basic assumptions on the nature of the post-apartheid economy and discusses the reasons for those shifts. The reasons include, in particular, global political and economic trends and the balance of forces in South Africa. These have combined to ensure the ANC's broad acceptance of an 'open-door policy' towards FDI, so long as it occurs on terms not inconsistent with national objectives. The emerging policy sees the state playing an active role in encouraging and guiding FDI to specific areas and sectors supportive of broad-based development. Foreign investors will be encouraged to form joint ventures with emerging black businesses and agree to foster training, skills development and affirmative action. Harnessing the benefits of FDI will be important for the success of wider strategies designed to place the economy on a firmer, more sustainable growth path.

TABLE OF CONTENTS

CHAPTER ONE	Introduction	page 1
CHAPTER TWO	Theory and Methodology: An Holistic And Eclectic Approach	page 9
CHAPTER THREE	South Africa in an International Context: The Implications of Engaging Global Change	page 46
CHAPTER FOUR	The National Context: Negotiating a Settlement Under Conditions of Political Stalemate and Economic Stagnation	page 78
CHAPTER FIVE	Emerging ANC Policy Perspectives on Foreign Investment	page 116
CHAPTER SIX	Summary and Conclusion	page 143
BIBLIOGRAPHY		

DEDICATION

For my parents, Mohammed and Hajira Carim.

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CHAPTER ONE
INTRODUCTION

While the formation of a democratic, post-apartheid government in South Africa is an accomplishment of astonishing magnitude, it is only a means and not an end. It marks the beginning of a protracted, complex and costly process of redressing the enormous imbalances in such areas as, housing, health, nutrition and education. Undoing the legacy of apartheid will require a profound change in the content and direction of the economy. It will be essential to underpin the political end to apartheid with a credible and coherent economic strategy designed to redress existing inequalities and place the economy on a firmer, more sustainable trajectory. The challenge of formulating and implementing this strategy is daunting.

As the dominant partner in the government of national unity, the African National Congress' (ANC) views are critical to the emerging economic strategy. Through the transition to the post-apartheid era, ANC policy-makers increasingly focused their attention on formulating a comprehensive set of policies to foster broad-based social development and economic growth. Given the South African economy's close structural links to the global economy, ANC policy-makers recognised that the success of their economic strategy also depended on coming to terms with international economic trends. As in the past, the global economy will profoundly impact on the prospects for national (South African) economic development and growth.

The intention of this introduction is to outline in broad strokes the range of issues that necessarily arise as the ANC formulates and implements its economic strategy, in general, and its policies towards foreign investment, in particular. This introduction sets out the general approach taken in the study and, as such, simply presents a point of departure. This chapter also attempts to illustrate the basic tensions that characterise the emerging development strategy in South Africa. In so doing,

it establishes the broad parameters of the future economic strategy and identifies some of the key actors. The chapter teases out the tension between growth and equality, and the relative emphases placed on these by various actors and stakeholders involved in the development process to convey a sense of the complexity of the process of formulating post-apartheid economic strategy.

This study seeks to identify the key political and economic policy issues surrounding ANC perspectives on foreign investment and how these emerged during the transition to a post-apartheid South Africa. The approach adopted in the study recognises that political, social, economic and ideological changes have combined at global and national levels to shape ANC views on foreign investment. While many of South Africa's political, economic and social problems are familiar, the global and national contexts within which they will be addressed are rapidly evolving. Old and new constraints, challenges and dangers must be engaged as political-economic space and strategic-policy options shift.

The wider process of globalisation, or closer integration of economies across borders, has ensured that national economic strategies cannot be isolated from changing global economic imperatives. Thus, ANC policy-makers have been forced to consider and develop policies affecting South Africa's external economic relations. This means, in part, that policies dealing with foreign capital (including direct investment, loans, portfolio and equity investments, amongst others) must necessarily form part of the overall economic strategy.

For several reasons, this study limits its concern to understanding the ANC's emerging policies towards foreign direct investment (FDI), in particular.¹ As chapters three and five of this study shows, a distinctive structural feature of the changing global economy is the rapid growth of FDI flows. While these are linking national economies ever more closely, over the last decade or so, the rate of growth of FDI has outstripped that

of both world output and exports. In addition, FDI flows are increasingly shaping patterns of trade and international commerce.

At the national level, inflows of FDI indicate a long-term commitment and involvement on the part of foreign firms to the growth and development of a domestic economy. While such inflows in themselves augment the resources available for domestic economic growth, they also signal to other potential investors that the country is an attractive place in which to do business. Hence, a dynamic process of capital inflow may well be initiated.

As the second part of chapter four in this study demonstrates in greater detail, economic decline in South Africa may be traced to its stagnating manufacturing sector. Inflows of FDI can assist in reversing these trends in several ways: by improving efficiency through technology transfer and managerial skill dispersion; by providing competition to inefficient domestic industries; and by creating greater employment opportunities in the economy. Moreover, through joint ventures, FDI can create an environment which is conducive to the emergence of black business in South Africa. It is also important to recognise that as transnational corporations (TNCs), through which most FDI flows occur, account for a greater share of world trade via intra-firm transactions, TNC involvement in the domestic economy can provide easier access to foreign markets.

Years of sanctions and disinvestment in South Africa have prompted a consensus which regards the need for FDI as self-evident. FDI is seen as crucial to stimulating the economic growth necessary to stabilise and underpin the post-apartheid future. In this light, the critical question becomes how will the ANC attract FDI and under what conditions?

On the other hand, the argument that FDI is a panacea is, contested for several reasons. It is sometimes argued that given the marginalisation of the Third World, in general, global

investment flows will tend to bypass South Africa. Structural problems in the economy and lingering uncertainties regarding future government policy also dampen prospects for significant capital inflows to South Africa.

In addition, some analysts see FDI as inimical to balanced and equitable development. They argue that it has adverse effects on income distribution, balance of payments and fiscal and monetary stability. They also observe how foreign interests may undermine economic sovereignty and the capacity to fulfil nationally-defined social or redistributive objectives.} The question then arises as to how the ANC expects to harness FDI not only to the objectives of economic growth, but also to socio-economic equity?

Several historical reasons make this study relevant. Foreign capital has played a key role in the development of South Africa's modern economy. At the turn of this century, massive inflows of foreign capital formed the basis of the mining industry which itself became a stimulus to wider economic development. Since 1945, foreign investment has targeted the most dynamic and technologically advanced sectors of secondary industry. The result has been that foreign investment has significantly shaped the South African economy and its relationship to the global economy.

Historically-conditioned economic factors must therefore be taken into account when considering the future role of foreign investment. In the short run, at least, the new government will be unable to markedly alter either the basic structure of the economy or the nature of its links to the world economy without serious disruption to its own.

The new government will inherit an economy that has been declining - or at least stagnating - for much of the past decade and one acutely dependent on global markets for imports, capital, technology and export. The economy will continue to rely on

primary product exports as most of its manufactured goods, will remain globally uncompetitive for some time. These basic facts have profoundly shaped ANC thinking on the role FDI will play in its economic strategy.

At the same time, it is important to recognise that economic strategies are never produced by economists acting alone in a political vacuum. They emerge as an outcome of competitive struggles, negotiations and bargains amongst the state and other political and economic actors. As markets are also socio-political systems, their operations, given certain economic parameters and technical constraints, are induced or suppressed through political and institutional mechanisms both at the national and international levels.

Representatives of competing interest groups define their negotiating positions in terms of particular interests and values. Actual outcomes, however, are the result of bargaining leverage, negotiating and organisational skills as well as persuasive and visionary statesmanship. Outcomes are usually determined by the political and economic power brought to bear in negotiations. Hence, the strategy which ultimately emerges reflects the ideological commitment and socio-economic orientation of the government as well as the nature and extent of the compromises required to accommodate powerful interests and values. In formulating an acceptable and legitimate development strategy, the ANC has had to take into account the divergent interests of a variety of competing constituencies.

The ANC has recognised that while FDI is essential for economic growth, foreign investors constitute a formidable constituency in their own right. They have the capacity to influence government policies by both promises and threats. They can circumvent restrictive government regulations and, in extreme cases, withhold or withdraw their capital. As a result, foreign investors can reduce a government's room for manoeuvre. The capacity of foreign investors to advance their interests are

enhanced where it has domestic allies committed to similar values and interests.

At the global level, the demise of the Soviet bloc and the discrediting of socialist ideologies has underlined the revival of neo-liberal ideology and programmes. In developing countries, this is most clearly seen in the structural adjustment programmes (SAPs) demanded by the International Monetary Fund (IMF) and World Bank in exchange for access to international loans and aid. Invariably, SAPs are designed to limit the role of the state and expand the free-market.

These programmes resonate easily with the interests and strategic objectives of certain interests in South Africa. They were reflected in the National Party's policies of deregulation and privatisation which began in the late 1980s and are now echoed in domestic business circles. In some ways, the approach represents an attempt to 'de-racialise' South African capitalism while retaining the essential features of the existing economic system. As the objective is primarily to stimulate growth through an expansion of the free-market, nationalisation or redistributive policies are anathema. Indeed, the approach is usually reticent towards policies designed to tackle socio-economic inequalities directly, reserving its preference for market-based, 'trickle-down' solutions.

An alternative viewpoint commands widespread sympathy among socialists and those who have been oppressed under apartheid. It finds its voice both within and outside the ANC and demands that the new government address the chronic inequalities which are the legacy of apartheid-capitalism. It argues that inequalities cannot be redressed by the free-market alone and the new government will have to intervene directly to shift resources to those who were deprived under apartheid.

This introduction, of necessity, is a simplification and somewhat misleading since future economic strategies will have to

accommodate both sets of expectations. In fact, the positions of the various actors are more dynamic and nuanced, and the emerging strategy will have to address growth and redistribution in a creative, comprehensive and sophisticated manner. During the transition, with growing interaction between important political and economic players, it became increasingly evident that the gulf between divergent positions along the political and economic spectrum was being narrowed.

At the same time, it is a mistake to view the process as one of contending forces attempting to influence a passive ANC since diverse positions are debated vigorously within the organisation itself. In other words, the ANC constitutes a site of struggle between contending ideologies, interests and policies.

Severe national and global constraints have fundamentally shaped the formulation of ANC economic policy. The organisation has had to compromise on both its stated and implied positions regarding a post-apartheid economy, and it has been forced to reconsider many of its basic assumptions on economic policy. It will be argued that the emerging ANC position on foreign investment reflects a wider trend; that is, the organisation's basic pragmatism with regard to forging national unity and fostering sustainable economic development.

This study, however, argues that ANC's 'retreat' does not imply surrender or defeat. The organisation will still be able to bargain effectively with both national and international capital. Although the terms of bargaining may have narrowed, strategies oriented to both redistribution and economic growth are possible. The central objective is to formulate a defensible and sustainable economic strategy based on national reconciliation and reconstruction. In unravelling ANC policy perspectives towards foreign investment, this study highlights the organisation's response to the wide-ranging problems, pressures and constraints it encountered in the transition.

Before revealing these, it is important to outline the theoretical and methodological bases on which the study rests. This is the aim of chapter two.

ENDNOTE

1. There are widely divergent interpretations of what constitutes FDI and these depend, in large part, on the degree of analytical precision required or sought. However, for present purposes it is important to provide a working definition of FDI: "... an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise" (See UN, 1993:5). Compare this with the definition Jenkins' (1986:18) gives: "Foreign direct investment occurs when an investor acquires an ownership claim over the assets in an another country. Typically, but not always, this happens when a transnational corporation (TNC) transfers funds in order to finance the establishment or expansion of a foreign subsidiary. The motivation to initiate what is usually a long-term flow of capital arises from a decision to exploit an investment opportunity. This is related to long-term expectation, rather than to short term fluctuations in the rate of interest or the rate of exchange."

CHAPTER TWO**THEORY AND METHODOLOGY: AN HOLISTIC AND ECLECTIC APPROACH**

The intellectual moorings of established social science paradigms have been weakened by their patent inability to fully explain or predict events. Ironically, a recurring problem has been the burgeoning 'menu of theoretical offerings' (Holsti, 1989:255). The sheer number of available perspectives, each purporting to guide analysis and interpret data 'correctly', is a perennial source of confusion.

Discomforting, too, is the tendency for theoretical debates to entrench existing positions that are intolerant of alternative interpretations. As a result, the 'choice' of any particular approach is quite often reduced to ideological predisposition, values and/or interests. Dismissing the insights provided by contending frameworks not only undermines cumulative knowledge, but also generates virulent and often sterile debate.

This study, therefore, advocates a broad framework. Its holistic conception incorporates domestic and international factors as well as the dynamic interplay of historical, political, economic and social forces. The approach is based on a conviction that no one theoretical or methodological construct is inherently superior to another. It utilises generalisations and insights from various perspectives in an eclectic and heuristic manner. Theory is taken as contingent, not axiomatic, and as a guide to analysis. This approach sensitises the study to the wisdom of a wide range of views in order to provide a broader conception of the issues under consideration.

To substantiate this, this chapter engages some important post-modern (sections 2.1 and 2.2) and post-marxist (section 2.3) discourses. In so doing, it seeks to go beyond the closure and incarceration of established paradigms and perspectives (both radical and liberal) to locate the issues raised by foreign investment in a broader set of questions generated by a the

emergence of a profoundly changed (post-modern) global political economy. Some of the practical and theoretical implications of these changes are discussed in the following two sections.

To lay the basis for re-thinking the issues relating to foreign investment, the study engages the perspectives of two variants of post-marxism: regulation theory (section 2.4) and post-imperialism (section 2.5). Taken together, these sections also set out the theoretical basis for the approach to foreign investment adopted in chapter five.

Thereafter, sections 2.6 and 2.7 of this chapter briefly attempt to address issues relating to political power, the state and development. This is vital to unravelling the contests over state power and the nature of the development strategy as they emerged in the South Africa during the transition to a post-apartheid era. In other words, the insights provided in these two sections inform chapter four of the study wherein the struggle over state power and economic policy are discussed in greater detail.

The final section (2.8) of this chapter draws together the main arguments in order to provide a summary of the proposed theoretical and methodological framework on which the entire study rests.

2.1 International Relations theory and the post-modernist challenge

There are several broad and interrelated aspects of post-modernism that inform current debates in International Relations. Lyotard (1985:6) defines the post-modern in contrast to the modern:

I will use the term modern to designate any science that legitimates itself with reference to a metadiscourse... making an explicit appeal to some grand narrative, such as the dialectics of Spirit, the hermeneutics of meaning, the emancipation of the

rational or working subject, or the creation of wealth.

Post-modernism, in other words, questions the existence of any general pattern or grand narrative on which to arrive at 'true' theory. This philosophical position is based on the fact that in the 'post-industrial and post-modern age',

... knowledge has become the principal force of production, science itself fragments into a congerie of games, each seeking not deterministic laws but instabilities, and all legitimising themselves, not by appeal to some grand narrative, but by paralogy, the violation of rules. To this shift in the character of discourse corresponds to those forms... which no longer seek, coherence, totalisation, integration into the whole.

(Callinicos, 1989:3)

Before pursuing these philosophical arguments further, it is prudent to examine some important developments in the global political economy that have underpinned the post-modern perspective. To begin with, it is argued that the pace, nature and scope of recent changes in the global political economy have been so profound that they have outstripped the capacity of established paradigms to fully explain or understand them. In general terms, Jane Flax's (1990:5) reflections on the scope of global change is appropriate:

The demise of the old is being hastened by the end of colonialism, the uprising of women, the revolt of other cultures against white Western hegemony, shifts in the balance of economic and political power within the world economy, and a growing awareness of the costs as well as the benefits of scientific 'progress'...[and] intellectuals cannot be immune from the profound shifts now taking place in social life.

These profound shifts have impacted on International Relations debates and all its sub-disciplines. To illustrate the general point, this section briefly considers the practical challenges to orthodoxy posed by changes in the dynamics of global security and peace, the widening North-South economic divide, and developments in the global economy.

During the Cold War the dominant concern of International Relations was the East-West struggle. This conflict was conceived primarily in terms of the potential for interstate war pitting the United States against the Soviet Union and involving their respective allies. While some scholars recognised that global security contained non-military aspects, analysts working within the dominant 'realist' paradigm focused almost exclusively on its political and military dimensions (Nolutshungu, 1994). In short, the agenda of International Relations was held captive by realist-inspired military concerns with the superpower conflict its central focus.

The demise of the East-West conflict has eroded this basic global reference point and dramatically altered the agenda of International Relations. Yet, serious theoretical reflection on non-military, non-statist International Relations remains embryonic. Current attempts to understand global problems are thus faced with profound challenges. Analysts must recast received theory in a manner which sheds light on the changing global environment and encompasses the broadening range of security threats. The 'new' security agenda has been expanded both 'horizontally' and 'vertically' (Booth, 1994:3). It has been widened to include such categories as democracy, human rights, economic development, environmental degradation in addition to its traditional military focus. Moreover, analysts now acknowledge that the state is not the only referent: human and transnational security concerns are critical reference points as well.

A growing concern in the post-Cold War era is the widening North-South divide. However, traditional approaches to understanding development in the Third World have been found to be inadequate. These approaches - liberal (modernisation thesis) and neo-marxist (dependency thesis) - have proven incapable of fully understanding or explaining peripheral capitalist development. More importantly, neither have been able to articulate effective and sustainable policies to reverse socio-economic decline

throughout the developing world.

Briefly, liberal interpretations of underdevelopment in the Third World have tended to be apolitical and ahistorical. They have focused primarily on internal constraints to development such as economic mismanagement, without due regard to global constraints, or to historical and political factors which impede development. The excessive reliance on 'market' forces does little to deepen understanding of the complex processes involved in fostering socio-economic development and growth.

In the dependency paradigm, the tendency has been to focus criticism on the workings of the global capitalist system as the basic cause of underdevelopment in the periphery. The typical view, often economically determinist, is that so long as peripheral countries remain 'locked' into the global capitalist system, their fate is predetermined: stagnation, dependency, underdevelopment and marginalisation.

Within this perspective, policy prescriptions call for third world countries to break with the global capitalist system and embark on 'socialist' path. These proposals rarely offer proposals that are realistic (socialist) alternatives to coming to terms with the global capitalist economy. The poverty of this approach is exposed by the patent inability to explain adequately profound such changes in the global economy as the emergence of Newly Industrialising Countries (NICs). In short, both conventional approaches to development leave much to be desired.

It is possible to detect misgivings about orthodox approaches in international economics. Charles-Albert Michalet (1994) demonstrates that the theoretical linchpin of international trade theory - the Ricardian notion of comparative advantage - is no longer relevant for the new world economy. He argues (1994:13) that the new rules of the game in the world economy are in contradiction with the basic assumptions of the Ricardian paradigm. This lengthy quote is instructive:

To understand the dynamics of the new world economy, it is necessary to consider together trade flows, capital movements, inward and outward FDI, technology flows and labour movements. Such an approach implies not only that exports and imports of goods and services are no longer the exclusive forms of economic transactions among nation-States but also that the various dimensions of the world economy are tightly interconnected. Therefore, it is no longer feasible to develop separate analytical frameworks for trade, financial markets, international monetary movements and migration as if these belonged to distinct fields that are subject to separate theories. Neither can the workings of the world economy be made understood by simply adding up distinct pieces of knowledge.

Michalet (1994:14) goes on to point out several additional features of the new global economy that stand in sharp contradiction to the old paradigm. First, factors of production are increasingly crossing national borders and this implies that the comparative advantage of any particular nation is now being defined *ex-post* instead of *ex-ante*, as in the old paradigm.

Second, nation-states are no longer the only - or even the most important - actors in the world economy. Decisions regarding the location or re-location of economic activity are increasingly being taken by transnational corporations (TNCs), over which governments often have little control. Similarly, decisions to fund economic activity are often made by transnational banks that are outside the jurisdiction of central banks of individual governments.

Third, the fact that a growing proportion of international trade is occurring at the intra-TNC level means that the price of goods and services that are channelled from one foreign affiliate to another are not determined by the market as in the traditional paradigm. Finally, as Michalet (1994:14) points out:

... because of the strategies and structures of the new world economy's main actors, the TNCs, the borders of national economies have become blurred. The historical coincidence between a State and a nation is put into question, and with that the traditional basis for political sovereignty. This why economic policy is becoming more complex and the outcome of

Government's economic measures is often uncertain. This situation is one of the major implications resulting from the nature of the emerging world economy.

Against these deep structural changes, students of International Relations are compelled to recast their assumptions and theoretical frameworks to explain new post-Cold War patterns of global peace, security and development. It is within this emerging theoretical milieu and historical context that post-modernist discourses promise a fresh, new approach to unravelling these issues.

Post-modernism advocates a move away from long-established theoretical traditions in the study of International Relations wherein the complexity and turbulence of global affairs have been funnelled into a caricatured and simplified narrative based particular and inviolable (modernist) interpretations of sovereignty, international anarchy and development.

In its place, a more 'reflexivist' approach eschewing theoretical incarceration and closure is posited (George, 1993). Post-modernism offer a wider, more nuanced reading of historical circumstance and contingency. The central aim is to open up the 'thinking space' required to effectively address the dominant issues of world politics in the contemporary era.

It is important to clarify possible confusion regarding the 'new' turn in International Relations theory. Many of the ideas and concerns expressed in post-modernism have their roots in earlier debates in political philosophy and have found expression in other social science disciplines. In general, however, these perspectives have been marginalised within the dominant knowledge-producing centres of International Relations theory.

Further, the current resurgence of formerly silenced narratives of global political life emerges, in part, out of a growing appreciation of the inadequacies of mainstream theory in accounting for the profound transformations heralded by the end

of the Cold War. The 'triumphalism' evident in many quarters in the West masks a pervasive sense of crisis regarding the current state of world affairs. Deep changes and emerging crises in the global system have been the catalyst for re-thinking conventional understandings of International Relations.

The contemporary period has witnessed a phenomenal growth in global interdependence, an erosion of state sovereignty, rapid advances in communications and technological innovation, profound ecological degradation, massive population growth, internationalisation of the global economy and growing scope for non-state actors in world affairs. In short, long-standing patterns of global interaction have been transformed and new ways of comprehending international affairs have become imperative.

Post-modernist acceptance of heterogeneity and diversity make it uniquely positioned to address the ambiguities and paradoxes of contemporary global life. In these readings, reality is not presented as a unified systemic whole that is understandable in objectivist, universalised or essentialist terms. Rather, global life is characterised by disunity, discrepancy, contradiction and difference, where objects and subjects are historically, politically, socially and linguistically constructed.

This undergirds a basic feature of the post-modernist approach: namely, the notion of theory as practice. To paraphrase Robert Cox (1981: 128), "theory is always for someone or something". The challenge here is focused on the realisation that there are significant silences and dangers in the way questions and answers have traditionally been framed in International Relations (George, 1993:140).

Ultimately, the 'new' discourse aims to facilitate a broader, more inclusive understanding of global human relations and illustrate how it is possible to think and act beyond the seemingly immutable principles of theoretical orthodoxy. This requires going beyond the closure of traditional perspectives to

foster more tolerant sophisticated forms of thought and behaviour (George,1993:139).

Post-modernism draws attention to the political and economic interests of human actors to explain changes in the global system rather than posit any mechanical operation of systems or structures. In this way, it envisions politics as an ever open-ended process (George,1993:172). By revealing how knowledge, power and national interest intersect as historically, politically, culturally and linguistically constructed phenomena, it defies the ritualised dogmas of a particular economic logic and a power politics ideology which together have constituted a form of intellectual totalitarianism with devastating practical implications (George,1993:173).

In the modern world, states have - more or less - managed to monopolise conceptions of political life (Walker,1990:5). The seemingly organic and commonsense link between politics, economics and state indicates the degree to which thinking about world security has been incarcerated within statist terms. As a way of organising people politically, the state remains an undeniable and compelling fact of global politics and alternatives are difficult - if not impossible - to comprehend.

Although this may reflect a current 'reality', it is important to resist any drift towards closure at the level of theory. The modern state is only one form of political constitution and it is one that has been historically and politically constructed. It is not a preordained given but, in fact, historically novel. In addition, as history shows, states are complex social structures that have always been changing in response to new conditions and demands (Walker,1990:22). Hence, it is not inconceivable that alternative forms of political community can be constructed in the longer term.

In the context of the dramatic global changes already mentioned, national sovereignty is unravelling and states are proving less

capable of performing their traditional tasks. If the state has not actually disappeared, it is under severe challenge. Nevertheless, alternative views of political community cannot be sustained simply by reverting to notions of a supposed universal humanity. Rather, they are more likely to be sustained by a thorough analysis of how political and economic insecurities are being created and intensified by the increasingly global organisation of human endeavour (Walker, 1990:24). Indeed, as more problems emerge on a global scale the need for global solutions increases dramatically.

Post-modernist discourses seek to challenge established theory by exposing their epistemological, ontological and ideological assumptions. Inherited approaches are seen to be a source of both knowledge and ignorance because while they guide analyses towards certain social processes, they tend to ignore or marginalise others. Post-modernists do not entirely dismiss established paradigms, but they remain sceptical that any one can provide complete descriptions or explanations of social phenomena. Kal Holsti (1989:256) makes the case in the following manner:

Our world is complex and growing more so; it is therefore unlikely that any single theory or perspective, much less their derivative research programmes, could adequately explain all the essential characteristics and account for change. The first significant purpose of pluralism is to alert us to oversimplification.... Theoretical pluralism is the only possible response to the multiple realities of a complex world. Any attempt to establish an orthodoxy of a particular perspective can only result in oversimplification and lost opportunities for expanding knowledge.

Theoretical monism has created an intellectual environment which is resistant to logical and empirical criticism, and this, in turn, has led to intellectual sterility. By undermining theoretical monism, post-modernism proffers a more liberating and reflexive intellectual environment. Analysts are encouraged to understand and tolerate perspectives they do not necessarily embrace so as to broaden their intellectual horizons.

Holistic approaches can also help overcome the problems of selectively conceiving reality. In this regard, it is important to present the parts and whole of the real world as "more or less continuous forms and phases of one great process, or as related progressive elements... (Kotze and Kotze,1993:16). Parts and whole influence one another and relationships are characterised by processes where beginning and end are indistinguishable. Kotze and Kotze (1993:26) argue that the repeated failure of development strategies in the Third World are a direct result of conceptions based on fragmented world views.

... the fragmentation of the development process into social and economic dimensions is an ... illustration of western analytical thought which fragments social reality to no end and then runs into 'obstacles', which call for 'problem-solving' instead of being understood as contradictions inherent in the original approach.

It is critical to challenge approaches which claim a monopoly on objectivity, rationality and truth. Post-modernism questions the criteria for evaluating theories and suggests that theories be reconsidered in light of their historical context, their ideological underpinnings and the forms of society they foster, sustain or challenge (Lapid,1989:250).

Meaning and understanding are not intrinsic to the world but, on the contrary, are continuously constructed, defended, and challenged. Post-modernism reverses the problem of construction in order to reveal how problematic are the taken for granted structures of our social and political world.... Far from consenting that epistemic criteria are destined to remain essentially unchanged over time and place. The new epistemology unapologetically suggests that it is itself socially mutable and historically contingent.

(Lapid,1989:242)

While theoretical pluralism is, moreover, a first step towards more integrative and synthetic research, post-modernist discourse, remains an heuristic, evolving and transitory intellectual endeavour. It is, in other words, "an enthusiasm of newly initiated departures rather than a celebration of safe

arrivals" (Lapid,1989:258).

2.2 Addressing the critics of post-modernism

Discourses in post-modernism have generated a vast and not always coherent literature in areas as diverse as the social sciences, literary and art criticism, and architecture, amongst others. Clearly, this study is not the place to review or critique this burgeoning area of scholarship. However, questions raised against post-modernism usually revolve around the following: Does post-modernism end in relativism and nihilism? Does radical deconstruction undermine all rational standards for discourse where all general categories become problematic and illegitimate? Does its radical historicist critique lead to a descriptivism that lacks the deep critical impulse of analytical theorising?

Critics of post-modernism point to the dangers of unbridled theoretical pluralism. The argument is that, if the post-modernist critique is correct, all research becomes prisoner of its own framework, language, past experience and expectations. Consequently, analysts are unable to communicate with or judge those working in a different paradigm (Neufeld,1991:6). This is an expression of what Bernstein (1985:86) has termed the 'Cartesian anxiety' - the notion, central to Rene Descartes, that unless analysts establish an Archimedean point of foundational knowledge which can serve as the basis for human reason, rationality must give way to irrationality, and reliable knowledge to madness. It is, for this reason, that positivism insists on establishing an ahistorical, extra-social standard of truth as correspondence.

While such doubts constitute a formidable challenge to the post-modernist enterprise, answers require coming to terms with several interrelated arguments. To begin with, orthodox approaches to the study of society has been dominated by positivism wherein the central tenet remains 'truth as correspondence' (Neufeld,1991:3). That is, positivism posits

that theoretical explanations will be true in so far as they accurately reflect reality - to the extent that they correspond to the facts.

The consequence of this is that a number of critical issues are ignored. These include the role played by the community of researchers in the production of knowledge; the historical origin and nature of community-based standards which define what counts as knowledge; and the merits of those in light of possible alternatives. By contrast, post-modernism affirms that all forms of social study involves interpretation of theory-laden evidence by means of theoretical frameworks which are themselves conventions adopted by a community of researchers (Neufeld, 1991: 6).

Simply accepting the post-modernist premise that all knowledge is socially constructed does not automatically lead to radical relativism. In attempting to judge the merits of rival paradigms, one may employ the Aristotelian notion of *phronesis* as a form of practical reason oriented toward the prudent exercise of judgement in contexts characterised as contingent and variable.

... when we compare incommensurate paradigms, [we are] refusing to limit our conception of human reason to a mechanical application of an eternal unchanging standard. We are affirming that a broader and more subtle conception of reason is possible than that which underlies both the positivist tenet of 'truth as correspondence' and that of radical relativism as the logical consequence of incommensurability.

(Neufeld, 1991: 8)

This permits adherents of rival paradigms to communicate with each other and to learn from each other's arguments. It enables analysts to weigh the relative merits of rival paradigms by comparing them with each other "in multiple ways without requiring the assumption that there is or must always be a common, fixed grid by which we measure progress" (Bernstein, 1985: 86).

It involves recognising that the standards used to judge paradigms are human standards that are made not given. At the same time, to judge paradigms affirms that analysts can use their powers of reason to evaluate different approaches, to persuade others of the validity of their judgements and to convert others through a process of reasoned debate and argument (Neufeld, 1991: 8). As Holsti (1989:258) observes,

Progress is not measured by unlimited accumulation of perspectives, paradigms, models or methodologies. ... Some perspectives, models and the like should and do have higher intellectual claims than others. The ultimate test is how elegantly and comprehensively they describe and explain the important persisting new and developing realities. Higher claims also belong to those theoretical perspectives that define what is important and why.

(original emphasis)

In its most positive guise, post-modernism legitimises the insights and generalisations provided by diverse approaches and assists a fuller understanding of the rich and diverse nature of social reality. It revisits established theory in an attempt to separate what is useful from what has led to sterility. Post-modernism, in effect, undermines dogmatism in favour of a commitment to firmer epistemological and ontological foundations. Kate Soper (1991:128) summarises the promise elegantly:

At issue here is the possibility of a more synthetic approach, one which combines alertness to the deficiencies and crudeness of much traditional value-discourse with alertness to the self-defeating quality of the attempt to avoid all principled positions in theory.... It involves giving up the grand narrative of a single truth, without giving up the idea of truth as a regulative ideal... it is only by means of re-engagement with value, informed and tempered by the rationalities which tended to its suppression, that a healthy postmodernist self-criticism will avoid reversion to an unhealthy legitimisation of the unreconstructed models of thinking that were just the target of initial attack.

The dramatic changes associated with the end of the Cold War and the profound transformations characterising the global economy simply cannot be fully accounted for within the boundaries of

mainstream theoretical approaches. The value of the post-modernist challenge is that it begins to open up the 'thinking space' required to come to terms with a rapidly changing international system.

2.3 Post-marxism: contingency, politics and praxis

Many analysts argue that marxism has been weakened by its proclivity for economic reductionism and determinism. David Booth (1985:773) suggests that the basic problem, transcending particular forms, "stems from marxism's meta-theoretical commitment to demonstrating that what happens in society in the era of capitalism is not only explicable but in some stronger sense necessary".

Marxists tend to assume that the salient features of nationalist capitalist development can be 'read-off' from the concept of the mode of production and its laws of motion. Reality, however, is too diverse and rich to be captured adequately by these notions and marxists are accused of substituting epistemological fiat for demonstrable argument and teleological functionalism for logical explanation. Booth's (1985:777) critique is directed at those formulations in which "abstract entities are conceived of having necessary effects in their structure or of being endowed with the capacity to shape socio-economic relations with their needs".

Nico Mouzelis (1988:112) argues that marxism need not lead to monistic closure since there is an essential 'openness' in the concepts of mode and relations of production. He writes (1988: 109),

... Marxism, more than any other paradigm in the social sciences, can suggest fruitful ways of studying social formations from the point of view of both agency and institutional structure, both as a configuration of collective action struggling over scarce resources, and as a systemic whole....

The reason the balance between structure and agency has not always been maintained has to do with marxism's inability to

satisfactorily define the relationship between the economy and the superstructure. Generally, politics is reduced either to the reproductive requirements of capital or to the interests and projects of the dominant class.

Alternatively, the notion of the 'relative autonomy' of the political realm does not itself provide proper analytical tools to study politics *per se* and it is usually qualified by the idea that the economy determines 'in the last instance'. In fact, this only becomes necessary when the underlying conception is that the economy determines the superstructure.

Some strands of marxism view politics and economics as ontologically distinct. So, while structural determinants relate to the economy, agency and conjuncture operate at the level of politics. In this view, the economy does not determine politics but only delineates what is possible politically. What actually emerges thereafter depends entirely upon political agents and the conjuncture. This view suggests that politics and economics are not amenable to the same kind of structural analysis. In effect, no further 'marxist' theorisation of political structures and contradictions is possible (Mouzelis, 1988:117).

Marxism lacks a consistent theory of politics and the state which is not reducible to the economy and class. The result is problematic. If the state is defined as an instrument of the dominant class, or as performing the functions of capital, as in peripheral capitalist formations, or even as an arena of class struggle, how is it possible to characterise a situation where the holders of the means of domination and coercion have the upper hand over the holders of the means of production, or when state policies hinder rather than promote capitalist accumulation?

Marxism, having failed to elaborate specific conceptual tools for the study of politics, builds the alleged primacy of the economic into the definition of the political. In that sense it is unable to study the varying complex relationship

between the economy and the polity in a theoretically coherent and at the same time empirically open-ended manner.

(Mouzelis, 1988:118-119)

Stuart Corbridge (1990:623) endorses many of these arguments but locates the crisis of marxism as one moment in a wider crisis of representation in the social sciences. In his view, all conventional paradigms have proven incapable of explaining the profound changes of the post-World War II era. The gradual emergence of a new system, which he hesitantly terms 'post-modern', has overtaken the conceptual apparatus designed to study and explain it. Corbridge (1990:627) also argues, however, that the impasse will not be resolved by opting for conventional development theory which itself imposes a teleological conception of the market 'as a panacea to all development problems.'

Post-marxism suggests fruitful ways of moving beyond the theoretical impasse. It opposes tendencies which posit the necessary primacy of economics at the level of discourse. In this spirit, Ernesto Laclau's (in Howarth, 1991:122-124) deconstructive reading of marxism suggests several important and basic ontological arguments. He refuses to separate contingency from necessity and argues, instead, that these are existentially and inextricably bound together. Thus, he presents an ontology which is not purely subjective nor purely objective, but one in which social reality appears as a world of forms continuously being subverted and transformed through political practice.

This antagonism is crucial since it introduces elements of 'radical contingency' and 'radical undecidability' into the structures of objective social relations. In this light, social reality and understanding are seen to be constructed discursively. Apart from contingency, Laclau adds three other dimensions to his ontology of social relations.

[F]irst, social relations are power relations in that the constitution of identity necessitates a necessary exclusion of another and the establishment of a violent hierarchy between identities.... Secondly,

Laclau stresses the primacy of the political foundations of social relations.... Hence the moment of antagonism consists in the revelation that all social relations have an ultimately political 'origin' and are thus vulnerable and contingent articulations.... Thirdly, the characteristics of contingency, power and the political, suggest the historicity of social relations, that is, the idea that social forms and identities are always subject to historical change....

(Howarth, 1991:124)

Post-marxists have been accused of simply being ex-marxists without substance or of floundering in intellectual relativism and nihilism (Geras, 1987). Yet, they attempt to address the related questions of causality, determination, conditions of existence of social and economic formations as well as the varied and diverse relations between the economy, agency, power and politics (Corbridge, 1990:628). Further, post-marxism directs attention to

... the relations of production which constitute a social formation and to their various and diverse conditions of existence. [It] accepts that the reproduction of capitalist relations of production must presuppose the existence of private property rights and wage labour.... At the same time, [it] denies that such conditions of existence must be produced for capitalism, or are produced in forms which are determined by the relations of production. It leaves open the possibility that capitalist relations of production may be reproduced or undermined by a set of opposing and unhelpful actions associated with (say) religion or demography.

(Corbridge, 1990:629)

In identifying currents in classical marxist thought which have not fallen prey to economic determinism, one need not look further than the writings of Antonio Gramsci (1971). Gramsci rejected the prevailing tendency to concentrate only on the materialist, economic side of marxism in search of natural, uniform laws of history (Boggs, 1976:23). He believed that such interpretations dulled marxism's critical edge, rendered it abstract and divorced from action, and resulted in political passivity.

Gramsci struggled to restore the elements of praxis, dialectics and totality to marxism by focusing on the active political and subjective dimensions without which the process of change could not occur. Following Marx, Gramsci argued that reality did not exist on its own, in and of itself, but only in an historical relationship with people who modify it. Moreover, marxism's strength derived from praxis rooted in the dialectic and human will. Thus, Gramsci always stressed the political, conscious and active dimensions of human behaviour (Boggs, 1976:26).

Gramsci did not deny the primacy of the mode of production in shaping history over the long run. He argued, however, that this always failed to explain the vital transformative moments in history which by definition involved upheaval, conflict and revolution. For Gramsci,

... the only truly revolutionary theory would be one that went beyond economic determinism to take into account the concrete and rich interplay of diverse forces during 'conjunctural' periods of social transformation'.

(Boggs, 1976:36)

Although a synthesis of post-marxist thought is non-existent, the common elements emphasise contingency, power, and human agency. Its main target are theoretical constructs which are closed and mechanistic. In its place, post-marxists propose a causality which is not teleological or deterministic, nor guaranteed by epistemological decree.

2.4 Regulation theory and the 'crisis' of capitalism

In many ways, 'regulation' theory proffers an economics and politics informed by marxism while rejecting the latter's teleology and essentialism. Stephen Gelb (1991:8) argues that regulation theory emerged as a response to marxism's inability to explain, except in an incomplete and *ad hoc* manner, the capacity of capitalism to repeatedly survive and absorb what appeared to be insurmountable crises. Without denying the structures of interdependence and dependence, regulation theory

presents a challenge to those who diminish the specificity of national capitalist development. As Lipietz (in Corbridge, 1990: 629) argues,

Something which 'forms a system' and which we intellectually define as a system because it is provisionally stable must not be seen as an intentional structure or inevitable destiny because of its coherence.... Whilst no immanent destiny condemns a particular place within the international division of labour, a provisional solution for the immanent contradictions of capitalism can at times be found (and I insist that it is a matter of chance discovery)... a field of positive positions does exist, but positions within it are not allocated in advance.

Unlike explanations which stress continuity, this approach sees "capitalism in terms of a theory of discontinuous equilibria" (Corbridge, 1991:630). By employing the meso-concepts of 'regime of accumulation', 'mode of regulation' and 'growth model', regulationists have constructed a four-stage model to understand capitalist development and crises in the twentieth century.

The Regulationists deny that the capitalist mode of production is comprehensible in terms of a single set of laws that remain unchanged from its inception They see the history of capitalism, rather, as a succession of phases, each distinguished by certain historically developed, socio-institutionally defined structural forms that give rise, so long as they are maintained, to distinctive economic trends and patterns... the Regulationists similarly insist that the structural forms that constitute their modes (or phases) must be understood as the outcome, to a significant degree, of class and political struggles.

(Brenner and Glick, 1991:46-47)

Briefly, a regime of accumulation refers to a fairly long-term stabilisation of the relation between consumption and allocation, while a mode of regulation implies the complex of social institutions, structures and implicit norms which act to regulate the behaviour of economic agents (Gelb, 1991:10-11). Together, these constitute a growth model which for some time can be considered stable. A crisis, or turning point, occurs when 'malfunctions' in the accumulation regime cannot be rectified

within the parameters of the existing mode of regulation. At this point, a new model can emerge involving the development of new institutions of regulation (Gelb,1991:13)

The utility of this approach lies in its conception of capitalist development as a discontinuous process. Contradictions are resolved not as preordained solutions but as part of the many experiments thrown up by capitalism and they survive only as 'successful mutants on probation' (Corbridge,1990:631). Problems of accumulation can be resolved by transforming existing structures and institutions without undermining basic capitalist relations. Gelb (1991:10) observes,

It is possible that the resolution of a crisis could be the replacement of capitalism by a different economic system. But in principle it is as likely (and historically more so) that the resolution will involve a transformation in the form of capital accumulation.

Across the world, attempts at socialist transformation have been reversed and current prospects appear increasingly remote. Amongst the Left, there is disagreement over both the definition of socialism and realistic programmes to realise it. Therefore, the task of the Left is to break with utopian fantasies and engage capitalism in order to shape an order which is both more humane and dynamic than in the past. In the long run, this might brighten prospects for socialism if it strengthens workers both economically and organisationally.

To take the South African example, capitalism is in the process of transforming itself away from its reliance on racially-defined institutions. Following regulation analysis, capitalism in South Africa is capable of surviving the transition. This implies that socialism is not on the agenda and the real issue becomes what form capitalism will take in the next round and what types of relations between social classes it will foster.

In a similar vein, Roger Southall (1987:372) has argued that given the alignment of forces both globally and nationally, any

attempt to force a transition to socialism in South Africa, will be enormously problematic and could undermine prospects for democracy. South Africa will, nevertheless, encounter a range of policy options beyond the a crude choice between 'barbarism' or socialism.

... if alternatives are available, and in addition, if it is accepted as inevitable that international capital will continue to exert formidable constraints upon the post-apartheid economy, then it will be necessary to locate a South African path to socialism within a broader discussion about social democracy, 'intermediate societies', market socialism, and so on.
(Southall, 1987:374)

Conceptualising a definition of 'freedom' in South Africa has to go beyond the attainment of formal political power to include addressing inequalities and poverty. In this regard, John Saul's (1991) use of the notion 'structural reform' is relevant as it attempts to understand the nature of reformist politics.

If immediate socialism is not possible, neither is the achievement of reforms directly destructive of capitalism. Yet those who reject all lesser reforms on the grounds that they are merely reformist are in fact rejecting the whole possibility of a transitional strategy and of a process of transition to socialism.
(Saul, 1991:5)

Structural reform is distinguished from 'mere' reformism in that the former is not self-contained or an end in itself. It implies additional reforms which deepen emancipation and empowerment. For reforms to be structural, they need to be rooted in popular initiatives. This can be accomplished

... in such a way as to leave a residue of further empowerment - in terms of growing enlightenment/ class consciousness, in terms of organisational capacity - for the vast mass of the population, who strengthen themselves for further struggles, further victories. The emancipation of the working class can become a total objective for the workers... only if in the course of the struggle they have learned something about self-management, initiative and collective decision - in a word, if they have a foretaste of what emancipation means.

(Saul, 1991:6)

2.5 Emerging perspectives on foreign investment: the post-imperialist thesis

Attitudes towards foreign investment have ebbed and flowed over the past forty years (Harvey, 1990:1). In the 1950s, it was widely assumed that foreign investment was both desirable and necessary for development. Developing nations were persuaded to create an attractive investment climate and the debate centred on what incentives to offer rather than whether or not this was the right policy. The need for capital, management and other technical skills were thought to make the case for foreign investment self-evident. This modernisation (liberal) approach focused on foreign investment and capital as the basis for economic 'take-off' in the less developing countries.

Hostile reactions to this thinking emerged in the 1960s. Foreign investment appeared to bring with it unacceptably high political and financial costs. Studies suggested that outflows of dividends, interest and debt repayments exceeded inflows of capital which seemed to imply that foreign investment was in some sense exploitative. Moreover, foreigners tended to concentrate their operations in the most advanced and dominant sectors of the national economy. This offended nationalist sentiments and fuelled fears of 'neo-colonialism', especially amongst the newly independent African nations.

Such views on foreign investment were underpinned by the dependency and underdevelopment schools of thought which were gaining adherents in academic and policy-making circles, particularly in the third world. The 1970s thus saw governments imposing stringent conditions on foreign investment to reduce the outflow of capital and the degree of ownership of foreign firms. The state imposed restrictions on local borrowing and dividend remittances of foreign companies. Nationalisation was also commonly used, partly because the private sector was not large enough to buy out foreign investors and partly because nationalist sentiment contained various socialist beliefs.

The 1980s are often referred to as the lost decade as a series of economic crises constrained loan capital flows to the developing world. Moreover, given the hostile reaction to equity finance in the 1960s, new foreign investment did not replace the drop in loan finance. In this context, and in conjunction with the debilitating effects of the debt crisis, development and economic growth stagnated throughout most of the developing countries and particularly in sub-Saharan Africa (SSA).

It is now widely acknowledged that the hostility towards foreign capital was excessive and mistaken. Nevertheless, simply re-inviting foreign investment without taking account of what has been learnt in the past forty years could result in old problems re-emerging. This could result in many of the same political reactions by developing countries at a high cost to both parties (Harvey, 1990:6).

The post-imperialist thesis provides insights into current thinking about foreign capital. It also echoes many of the sentiments expressed by post-marxism and presents a political analysis of transnational class formation and late capitalist development (Becker and Sklar, 1987). Its post-marxist credentials are expressed in Becker's (1987:46) urge "to abandon the teleology and stasis of system-maintenance ideas along with the tendency to deduce class action from axiomatic first principles".

Like the regulation theorists, post-imperialists refuse to see the world as frozen sets of 'haves and have nots'. As global divisions are fluid with development and industrialisation proceeding unevenly over space and time, territorial delineations are increasingly incapable of explaining the roots of discord. Sklar and Becker (1987:9) argue,

What is implied, for the analyst, is a social rather than systemic or institutional frame of reference; a preference for looking 'beyond' reified systems and their abstract 'laws of motion', but also 'behind' corporations and governments, to the group and class

bases of the actions of these institutions.

The approach is class-analytic and focuses on "differentiated classes in place of undifferentiated nations" (Frieden, 1987: 180). It argues that the world is beyond imperialism - the domination of one nation by another - and rejects the notion that international capitalism is necessarily and ineluctably imperialist, inherently coercive or that there is a need for business to expand globally. It is not a theory of international capitalist development *per se*, but an idea of transnational class formation. Frieden (1987:180) makes the point explicitly;

The post-imperialist approach thus postulates a national bourgeoisie in the LDCs whose leading stratum is a managerial bourgeoisie that is part of a nascent transnational bourgeoisie... [and] are linked by ties of mutual interest in which the concerns of international capital - for access to LDC markets and factors of production - match those of the LDCs embodied in their state apparatuses (as well as their private sectors) - to industrialise.

Instead of nations dominating one another, an emerging transnational bourgeoisie is seeking to dominate the entire world. The alliance between the national and international corporate bourgeoisie is based on a fundamental mutuality of interest. This view informs the post-imperialist critique of dependency theory. Although dependency theory has progressed beyond the theoretically incoherent and empirically ill-founded notions contained in 'the development of underdevelopment' thesis, certain intractable problems endure.

Faletto and Cardoso's (1976) 'historical-structural' view exemplifies the dependency approach's highest expression in accounting for peripheral capitalist development. It applies systematic method and concrete analysis to clarify the general features of capitalist development in relation to the specifics of the national experience. While acknowledging that industrialisation can occur in the periphery, it insists that this can only be on the basis of 'dependent development'. In other words, it is understood that development cannot be self-

sustaining. Becker (1987:45) contends that the approach rests on two broad but dubious generalisations:

[First] that the nature of industrial technologies and products, dictated by profit maximisation, demands and reinforces highly skewed distribution of wealth and income and, second, that the domestic bourgeoisie's reliance on international capital for technology, finance and principles of enterprise organisation saps it politically, depriving it of the hegemonic assets of an indigenous dynamism and a national-popular value orientation. Here too, peripheral capitalism is said to be incapable of universalising capitalist relations of production.... Once again, a weak bourgeoisie is regarded as unable to become hegemonic, and compelled to take political shelter behind authoritarian rule.

In short, the dependency paradigm assumes capitalist democracy is unattainable and that inequalities cannot be mitigated in the periphery. Also implicit is the notion that foreign capitalists promote authoritarianism. As such, it reverts to teleological arguments and ignores changes which are occurring in the periphery.

Becker (1987:46) avers, "the wave of authoritarianism has spent its force and is receding". Indeed, transitions to democratic rule are genuine and growing prospects in the developing world. Moreover, foreign capitalists are not necessarily authoritarian; they are largely indifferent to types of governance so long as they achieve their primary objectives with regard to profit and market share. The dialectics of development, abetted by foreign capital,

... gives rise to better organised subordinate classes whose members insist on political incorporation and opportunities for social mobility in return for their acquiescence in capitalist socioeconomic arrangements. Transnational business executives, for their part, have no cause to object to local democratic governance, so long as its presence is compatible with the stable economic environment that corporate planning requires.

(Becker and Sklar, 1987:8)

Transnational corporations (TNCs) are promoting the integration of diverse national interests on a new transnational footing.

This is proceeding under an ideology which stresses the fundamental, long-term mutuality of interests with regard to the maintenance of socio-economic privilege, bourgeois class-power and social control intrinsic to the capitalist mode of production (Becker and Sklar, 1987:7). While divergences between national and international fractions can become pronounced, these are usually of an immediate and parochial nature over the distribution of gains.

The notion of the 'doctrine of domicile' is understood as an ideological tenet of TNCs designed to mitigate conflicts with the host government. The doctrine suggests that TNCs adapt to, and operate in accordance with, the policies of the state in which they are domiciled as good corporate citizens obeying local laws, customs and procedures. The aim is to promote the interests of enterprise and smooth relations between the host government and TNCs. Becker (1987:52) defines the doctrine as

... an element of the corporate international bourgeoisie's hegemonic world view... it works, both cognitively and in practice whence the possibility of mutually beneficial transnational-host country relations. These relations are, of course, mutually beneficial in an institutional context; their dominative and exploitative content is only exposed when the tools of class analysis is brought to bear on international capitalism.

Although foreign capital is not necessarily encouraged or welcomed in every case, relations between TNCs and developing nations are increasingly converging around a non-ideological middle ground. Adopting an 'assertive pragmatic' approach recognises the effects of TNCs on development are mixed and that feasible government pressure and intelligent bargaining can produce worthwhile improvements in the cost-benefit mix (Schatz, 1987:108). Christos Pitelis (1990:107) points out that

... the present relationship between all nation states and the TNCs can be broadly described as one of rivalry and collusion, but the degree of rivalry or collusion will depend heavily on whether the relationship refers to TNCs own states, or 'host' states, as well as whether the states in question are

'strong' or 'weak' states, developed countries or less, developed countries.

This suggests the need for a more nuanced approach which promotes active bargaining to improve benefits for the host nation. There is, however, no simple formula for deciding whether any particular foreign investment being proposed is one that a host country should or should not welcome. Governments should not try and decide on investment proposals case by case, but should have a general set of policies with which all investors, domestic and foreign, must comply.

The terms of good corporate citizenship can also be defined by local authorities. If neither official policy nor the TNCs' profit strategy encourage 'linkages' with the local economy, then none will be forthcoming. If, however, the host government defines good corporate citizenship in terms of expansion and adopts policies to encourage those market opportunities, then foreign interests may revise their calculations accordingly (Becker, 1987:206). Notwithstanding the argument that the process of transnationalism is undermining the capacity of states, international capital requires states to legitimise their involvement in the ongoing development process (Pitelis, 1990: 109).

As critics may see post-imperialism simply as an apology for international capitalism, a caveat is necessary. This thesis does not view capitalism as uniformly progressive nor does it postulate that capitalist democracy fully guarantees freedom for all. After all, as Becker (1987:41) insists,

... in defining as nonpolitical key structures and institution of economic power, it places them arbitrarily beyond the reach of democratic norms and, thereby, enables them to go on functioning as mechanisms of domination, exploitation, and accumulation of class privilege. Nevertheless, late-capitalist democracy provides institutionally for some political control over economic life... a bourgeoisie whose social control is secure has much to gain - *inter alia*, social peace and stability ... by accommodating the most urgent demands of the lower

classes. Under capitalism, as under any socioeconomic order, democracy provides the only meaningful assurance that the question of distributional equity will be addressed.

It is in terms of praxis and a realistic political agenda that post-marxism provides a most telling contribution. It insists that a progressive praxis must work towards democracy as well as economic equality. Given capitalism's capacity to endure and its ability to manage conflict through 'socialising adaption', the projects of revolutionary socialism and 'Third Worldism' simply disguise an absenteeist politics (Schatz, 1987). Politics should be seen to be primarily a national matter. In this context, Becker (1987:56) alleges that,

Paradoxical though it may seem... *dependencismo* is ... helping to legitimize the new capitalist order. By plausibly attributing the present economic difficulties to an international economy that no... government can hope to alter by itself, it enables the local dominant classes to avoid being held responsible for them. A legitimizing ideology does not have to value and justify the status quo in explicit language... [it] can accomplish its purpose surreptitiously if it undercuts or excludes from the agenda a radical critique leading to a feasible strategy for effecting social change.

The poverty of orthodox marxism lies in its utopian political agenda. The only option it proposes is immediate, universal socialist revolution followed by economic autarky. It rejects political actions that work within the bounds of capitalist democracy or that settle for less than absolute goals. Yet, in the present conjuncture, where the working classes are still at the early stages of formation and where powerful and repressive state machinery obtain, revolution is likely to be irresponsible and dangerous or elitist and undemocratic.

Post-marxism offers a more realistic political agenda. It recognises that capitalism is neither unitary nor without appeal but, rather, is a variegated set of social relations with prospect of longevity. Progressives can thus work for democracy - without being accused of reformism - in the knowledge that the

system is often changed by less than revolutionary actions (Corbridge, 1990:634).

It is not a matter of choosing between capitalism and socialism (the latter 'choice' being misplaced or untimely), but recognising that good analysis should avoid wishful thinking. The arena of 'bargaining politics' may be the only realistic option currently available. Nationally, the dialectic of development provides the possibility for the lower classes to strengthen their position *vis-a-vis* the bourgeoisie. In either case, results are not preordained. }

Finally, as Corbridge (1990:634) observes,

Post-marxism suggests both an intellectual tolerance of non-marxism, and a recognition that marxism functions best as a critique of capitalism and not as a blueprint for socialism. More exactly, post-marxism accepts that regimes of accumulation are contradictory, are founded on asymmetry and are prone to crisis; but denies that these contradictions work to a consistent set of spatial outcomes or lead to some form of apocalyptic denouement. Post-marxism encourages us to see differences as well as uniformities; it returns to radical development studies a sense of time and a sense of place.

2.6 Development and political power

The term development is value-laden, emotive and diverse in its meaning. Richard Sandbrook (1982) outlines two features that make development strategies intensely political. First, a development strategy indicates who (that is, which class, class fraction or stratum) will take the main responsibility for expanding the economy, and hence benefit from the accumulation of capital. It also determines which social strata will bear the brunt of the strategy. Second, a development strategy prescribes how the economy should be managed to attain growth and other goals (Sandbrook, 1982:81).

David Goldsworthy (1988:508) highlights other key issues.

Development strategies have inherent biases and display certain sets of values and interests. As development strategies are not optimal for all classes or social groups, it is inevitable that one set of values and interests will be implemented at the expense of those of another group.

Politics influences the outcomes of development programmes to the extent that the distribution of development fruits usually reflects the pattern of political power and not human need (Goldsworthy, 1988:512). 'Development' is executed mainly by politically powerful institutions including government and/or international actors. According to Goldsworthy (1988:511),

Development planning and implementation is a top-down process with the role of change agents performed by state functionaries.... The decisions and actions of development bureaucracies will commonly reflect either bureaucratic self interests or the interests of friends, clients and class allies, or will at least 'objectively serve' those existing interests. The predictable result is a pattern of development that both reflects and consolidates existing disparities.

Apart from structural constraints which influence the outcome of economic policy-making, the question of 'political will' is important. It is not always true that state weakness or lack of political will undermine equitable growth in the developing world:

What is not being recognised ... is that the 'lack of political will' (when it is used as a scapegoat implying apathy and no motivation to promote development) said to impede so many development plans is actually the obverse of the strength of political wills (plural) that are diverted towards alternative objectives that are embedded in specific and structural positions of political and economic power. (Goldsworthy, 1988:514)

For example, in attempting to understand the impediments and problems inherent in the World Bank's free-market advocacy in Africa, Sandbrook (1986:153) argues that

... the political and economic exigencies of personal rule subvert a capitalist logic... current policy and

mismanagement actually have a *raison d'être* within this political system. It is the logic that shapes the decisions of politicians and administrators. Because changes (reform)... would undercut the power and/or wealth of political insiders, they resist the proposals. The fundamental problem is a political one - where is the will to free markets and shrink the state?

It should, however, be noted that development policies are not simply imposed on society. They elicit responses which reflect the gains and losses felt by various social groupings. These responses also make development a political issue. If a certain group perceives gain, they will tend to co-operate; if not, they are likely to be obstructive (Goldsworthy, 1988:10).

Political power does not lie solely with the dominant economic and state interests. There are other social and political bases which can provide cohesive and powerful sites to challenge the *status quo* and which can have a significant impact on the policy-making process. Consequently, the development process will exhibit power relationships such as "force and persuasion, conflict and co-operation, stalemate and compromise, factionalism and class-struggle" (Goldsworthy, 1988:512).

2.7 Politics, power and the state

This chapter has disparaged orthodox marxist analyses wherein politics is treated as a simple reflection of 'deeper' and more 'profound' economic structures. Such analyses tend to conceive of the state as a monolithic instrument of the dominant economic class. As such, they indicate poor methodological and theoretical assumptions, mar analysis and impede the formulation of effective oppositional agendas and strategies to counter those of the state (Charney, 1990).

The state is not static nor monolithic. Rather, it assumes various roles under varying circumstances and there are numerous internal and external factors which need to be taken into account in explaining its behaviour. It is clear that the state plays

a pivotal role in influencing economic and political development. To address this theoretical lacunae, post-marxist perspectives need to forge a dialogue with some currents of 'neo- Weberian' discourse (Vandergeest and Buttel,1988). This discourse raises important and relevant questions on the nature of political and state power which are crucial to understanding both the scope of realistic social change and the avoidance of the abuse of power (Hyslop,1991:173).

With regard to the question of power, Vandergeest and Buttel (1988:688) argue that the concept should be broadened to include 'authoritative resources' which are "derived through the control of the means of violence". This complements the analysis of power as derived from economic advantage such as, for example, the veto power of business confidence over state policy when investment decisions are privately controlled. Since power is never monolithic and always relational,

... all forms of dependence offer some resources whereby those who are subordinate can influence the activities of their superiors... power should not be seen only in its purely coercive sense as inimical to freedom but also at the heart of both domination and power lies the transformation capacity of human action... [and] power in particular cases needs to be conceptualised in terms of how class, gender, ethnicity and other sectional relations are experienced by the historical actors themselves....

(Vandergeest and Buttel,1988:688)

Political power is more than formal state power and emerges from the conflicts and compromises of contending forces in relation to one another. This implies a structural nature of political power in addition to interdependence in power relationships. Moreover, as power relationships are projected onto bargaining and negotiation processes, it is important to appreciate the "continuous reconstitution of the power dimension of the political terrain through bargaining actions" (Booyens,1990:44).

Two further conceptions need to be emphasised in regard to analysing the state. First, on the autonomy of the state:

[Weber] emphasised strongly the autonomous power of officialdom; those who control the means of administration wield power in their own right. Weber fully recognises economic forms of power. But he does not ask us to assume that economic power translates automatically into institutional power, and calls on us to acknowledge that institutional power is more than a simple reflection of class interests. Generals and bureaucrats may be constrained by the politics of capitalists, but they have their own autonomous interests to pursue.

(Hyslop, 1991:173)

It is important to acknowledge that the relationship between the state and society is not one-way nor causative; it is dialectical. Also, while the state may act in the interests of the dominant group, this group need not be an economic class *per se*; it could be, for example, a religious or ethnic group, or the military (Sarakinsky, 1989:70).

Second, the 'state' should be disaggregated in order to discern how and when its various institutional factions (juridical, military, political, security, bureaucratic etc.) manifest competing lines of authority. The fact that the state does not always act cohesively demonstrates how policies can also be a result of competing personalities, diverging institutional interests and ideological programmes. In sum, the state should be understood as

... a matrix of institutions engaged in the formation and implementation of social, economic and political policy and that there are significant divisions and conflicts within and between institutions and personalities... [and this] analysis does not imply that broader social relations do not affect the functioning and capacity of states or that there are no constraints on state action, it merely claims that states have the potential to act autonomously and this should be taken into account when analysing particular states.

(Sarakinsky, 1989:70)

Moreover, the larger the state apparatus, the more unlikely is it that central control over the entire apparatus can be effective. Thus, an analysis of the state should focus "on the patterns of organisation through which demands are shaped and

through which policy is formulated and implemented"; that is, the study of the decision-making process (Charney, 1990:765).

A similar 'institutionalist' analysis can be employed to understand South African oppositional organisations and their resistance activities.

Failing to treat politics as an autonomous sphere of action even impedes the analysis of resistance activity. Too often, it has discouraged study of the inner structure and life of oppositional organisations. Instead, these groups tend to be treated as receptacles for social groups ('community', 'youth', 'workers') which express themselves through them - a mirror image of the functionalist view of the state with limited ability to organisational capacities, success, or failure. This approach also confuses discussion of opposition tactics, since it assumes that correctly describing social structures and forces will define a single tactical resultant.
(Charney, 1990:764-765)

2.8 Summary of the proposed theoretical and methodological framework

In establishing the theoretical foundations on which this study rests, several distinct but interrelated conceptions have been emphasised. First, the holistic and eclectic approach recognises that while established theories can provide insights, in themselves, they provide incomplete explanations and analyses. A theoretical pluralism employed in an heuristic manner permits moving beyond the current impasse and suggests more comprehensive and nuanced conceptions. It may also establish bases for a more synthetic approach in the future.

Second, this chapter has stressed the centrality and essential openness of political practice. It emphasises human agency and praxis in opposition to closed and mechanistic theoretical constructs. If taken to their logical conclusion, the latter will tend to lead to passive and/or defeatist politics. The former conceptions acknowledge the essentially political nature of the development process and the institutional character of

politics. It 'unpacks' and disaggregates notions of the state and oppositional organisations in order to appreciate the processes of decision- and policy-making. In this respect, it provides a useful framework to understand South Africa's political transition.

Third, the chapter notes the capacity of capitalism at both global and national levels to withstand, absorb and adapt to crises which it perennially encounters. By contrast, transitions to socialism have proven reversible and there is an urgent need to rethink and redefine the theories of socialist transformation in order to advance a practical, realistic and democratic programme for its attainment.

Given this context, achieving (liberal) democracy, however incomplete and flawed it may be, is a worthwhile goal. Incremental advances should not be dismissed *a priori* as inadequate; instead, they should be seen as part of an ongoing process towards deepening human emancipation. This approach helps contextualise current economic debates in South Africa.

Fourth, the chapter observed that the rivalry between states and foreign investment should be seen within a more general framework of common interests (collusion). The effects of foreign investment and capital in a host economy is understood to be mixed. This framework opens up the possibility for bargaining between host states and foreign interests in a way that can improve cost-benefit calculations in favour of the host country. Host states have to develop ways to control flow of information, know-how, technology, with an eye to independent industrialisation. As will be shown, these considerations are evident in the manner in which the ANC has approached issues of foreign investment.

Finally, strategies for disengagement and autarchic development which were popular in the 1960s appear virtually impossible today. While the revolutionary optimism which characterised

earlier debates on a post-apartheid South Africa has largely evaporated, it is important not to despair. As Corbridge (in Padayachee, 1993:16) has pointed out, the process of globalisation has not ruled out economic strategies oriented towards national-domestic ends.

... nation-states can still to some extent mould and change events and that recent changes in the world economy have opened up opportunities, as well as set limits or constraints on national development. There is no need to slip into a politics of disengagement and despair.

CHAPTER THREE**SOUTH AFRICA IN AN INTERNATIONAL CONTEXT: THE IMPLICATIONS OF ENGAGING GLOBAL CHANGE**

South Africa is emerging from the isolation of the apartheid era at a time when the world is undergoing profound and rapid change. As a result, numerous difficulties will complicate its efforts to 'locate' itself in the emerging world order. Until the 1980s, it was widely presumed that post-apartheid South Africa would join the non-aligned movement and perhaps, like India, lean towards the Soviet Union (Vale, 1993:181).

Deep systemic changes have made this 'entry point' unlikely. The demise of the bi-polar conflict has made notions of non-alignment increasingly irrelevant and since patterns of global economic interaction have changed, new thinking on how South Africa will re-integrate itself into the global economy is required.

Essentially, the economic debate in South Africa is about the relative costs and benefits of different policy options. The contours of this debate, in large part, has been influenced by global political and economic trends which evoke both opportunities and dangers. Understanding and coming to terms with this changing context is, therefore, critical.

This chapter attempts to identify the key global factors which have shaped ANC thinking on economic strategy. It examines i) changes in global political structure; ii) trends in the international economy; iii) the marginalisation of many nations in the developing world; and iv) the pronounced role of the International Monetary Fund (IMF), the World Bank and the General Agreement on Trade and Tariffs (GATT) in the emerging global economy. The final section summarises these developments in terms of their likely impact on future economic policy.

3.1 Global politics: the end of bi-polarity and the rise of neo-liberalism

The collapse of the Soviet Union has left the United States as the sole remaining superpower. In this changed environment, South Africa has been denied its 'natural' home as a member of the non-aligned movement in a bi-polar world. Moreover, as Peter Vale (1990:43) put it, "the Third World can no longer play the West and East off against each other; nowadays, the West is the only show in town".

No longer can the pattern of global politics be interpreted in terms of bipolar rivalry between the USSR and the USA, in which one superpower's gain means the other's loss. This is as true for the Third World as it is in the direct relationships between the major powers, and the change is sharply felt in southern Africa. These states... are now beginning to appreciate the fact that there is no alternative other than to come to terms with the capitalist economies of the Western world.

(Johnston and Shezi, 1993:170)

The end of the Cold War is welcome in so far as the threat of nuclear holocaust has receded. Yet, as societies and nations were released from the straitjacket imposed by the bi-polar global structure, a host of problems has arisen in its wake.

The end of the contest between the superpowers only revealed further local tensions around the world, not least within the Soviet European empire, too long repressed by the rigidities of the Cold War. The frigid arguments of geopolitics were quickly replaced by the passions of old unresolved problems: the vengeance of nations; the reassertions of religious faith; the nostalgia for traditional ways of life crushed by incomplete and unsuccessful modernization; and the cry for new forms of political and economic independence.

(Strategic Survey, 1991:16)

Although the trend was evident in the 1980s, the demise of the Cold War encouraged transitions from authoritarianism to democracy across the globe. The re-opening of the 'national question' in Asia, Latin America, Eastern Europe, Africa, and in regions of the former Soviet Union, however, has caused

apprehension. As Vale (1993a:5) observes,

For decades the collapse of dictatorship has sparked conflict.... This should not be taken to mean that democracy should not bring security: quite the contrary. But - as the global lesson shows - the cadence of political metamorphosis is a very delicate one.

Amongst developing nations, democratic transitions have been propelled by the conditions imposed by multilateral financial institutions. Financial assistance is increasingly being provided on the condition that borrowing countries commit themselves to establishing 'good governance' based on western-style, multi-party democracy. In principle, the trend to democracy is welcome, yet doubts surrounding the content of western democracy have been underpinned by the fact that it is seen to be externally imposed.

The end of the Cold War underlined the ascendancy of neo-liberalism as an economic policy orthodoxy across the globe. Initially, neo-liberalism was expressed in monetarist economic policies pursued by the industrially advanced nations at the end of the 1970s. These emerged as a response to the global economic recession which followed the quadrupling of oil prices by the Organisation of Oil Producing Countries (OPEC) in the 1970s. Essentially, it involved shifting the balance of social forces in favour of capital by 'rolling back the state' through deregulation and privatisation. The central features of neo-liberal thought, of which monetarism is one brand, are its endorsement of less governmental activity in the market which is viewed as the most efficient mechanism for allocating resources and establishing political freedoms (Mann, 1988:57).

While the demise of the socialist bloc suggested the crest of neo-liberalism globally, its resurgence was evident in the 1980s. Neo-liberal perspectives eventually came to dominate most policy initiatives in the 1980s. The trend to more market-oriented economic policies found favour with governments in the developing world who began to endorse policies they had once vehemently

resisted.

The neo-liberal critique was directed against what was perceived to be excessive and misguided interventionist government policies which, it argued, undermined prospects for economic growth. In its place, the new orthodoxy advocated the earliest and fullest possible economic liberalisation with regard to trade and investment regimes, foreign exchange markets, labour markets, financial markets and sectoral markets that comprise the economy as a whole (Trade Monitor #2, May 1993). Other ingredients of this approach include monetary and fiscal restraint as well as the maintenance of external economic equilibrium.

Neo-liberal thinking was evident both in the emerging patterns of international economic interaction and in the actions of the international financial institutions. As the 1980s unfolded, it became apparent that these tended to work to the advantage of the industrially powerful nations that dominate the global economy and its institutions. The select few developing countries which adapted to emerging global trends also enjoyed economic benefits.

Neo-liberal assumptions appeared to find their justification through both positive and negative examples: in terms of the processes of globalisation and regionalisation amongst more advanced industrial nations, and the drift towards marginalisation in the developing world. It cannot be overemphasised, however, that these trends are not uniform, nor are they discrete. Rather they are inextricably linked, uneven and sometimes contradictory. Notwithstanding these qualifications, by the end of the 1980s, the trend towards political and economic liberalisation was clearly ascendant.

3.2 The imperatives of globalisation: international economic trends

It is widely recognised that national borders are being rendered porous not only by technological revolutions in communication and

transport, but also by massive capital (productive, commodity and financial) flows in the global economy. Indeed, globalisation - or closer integration of the national economies in the global system - has been abetted by declining costs of transport and improved communications. The process is characterised by

... increased openness, the growth of intra-industry trade, the expansion of direct foreign investment particularly in services, the adoption of outward oriented policies by most developing countries, an emphasis on regional policies and corporate strategies, and policy initiatives that move beyond simply removing border barriers towards deeper integration.

(Lawrence, 1993:1)

Over the post-World War II period, world export volumes consistently grew more rapidly than output. Growth was rapid in periods of enhanced trade, and the nations that have grown the fastest are those whose trade has done likewise. Conversely, the economies that have stagnated are those which have had poor trade performances. Moreover, the most dynamic and developed economies in the system have become increasingly integrated through the expansion of trading links (Lawrence, 1993:1-2).

In disaggregating these trends, trade potential was greatest in highly sophisticated manufactured capital goods, pharmaceutical and instruments. While trade in manufactured goods outstripped trade in primary goods, trade in sophisticated products grew most rapidly. The share of high-tech products in manufactured goods trade increased from 21.4 per cent in 1973 to 28.6 per cent in 1988 (Lawrence, 1993:2).

Associated with the growth in manufactured trade has been a rise in foreign direct investment (FDI). In particular, the second half of the 1980s was marked by a massive increase in FDI flows which was initially concentrated amongst developed countries. Between 1983 and 1989, the dollar value of FDI grew at an annual rate of 28.9 per cent, three times as rapidly as the 9.4 per cent pace of world exports and 7.8 per cent rate of world Gross Domestic Product (GDP) (Lawrence, 1993:2).

Transnational corporations (TNCs) are increasingly seen to be actors of paramount importance in the world economy as they interweave national economies and expand cross-border linkages amongst countries. Foreign investment grew most rapidly in services and, by the late 1980s, it accounted for almost 50 per cent of total FDI stocks (Lawrence, 1993:3).

Paradoxically, while domestic liberalisation has encouraged service FDI (banking, insurance, transport, tourism, for example), the threat of protection in the US and in 'fortress' Europe encouraged growing investment in manufacturing. The combined expansion of intra-industry trade and FDI has made competition truly global.

The globalisation of trade and investment patterns has followed more liberal and outward-oriented government policies. According to the 1992 World Investment Report of the United Nations (UN), in 1991, of eighty-two policy changes relating to foreign investment made by thirty-five countries, eighty were intended to ease the process. Additionally, in seventy-two countries, privatisation programmes offered new opportunities for FDI (in Lawrence, 1993:5). In developing countries, shifts to outward-oriented policies were induced by debt problems, IMF and World Bank dictates, the Asian example and the need to attract new capital in new forms.

In this context, the cost of pursuing alternative (socialist) paths of development has become prohibitive. Without the backing of the Soviet bloc, the alternative to coming to terms with the global capitalist system is autarky. Given that the world economy is becoming increasingly interdependent and that prosperity is linked to competing astutely in the system, autarky is potentially disastrous.

... rejecting the challenges of globalisation and competitiveness is short-sighted and has dangerous implications for the economic future and the living standards of the mass of the people. Growth models that are internally focused suggest either autarky or

deindustrialisation. If we do not develop the capacity to produce manufactured products at lower cost and higher quality than other countries, we shall have to forgo their production or maintain high protective barriers. In a world that has become increasingly interdependent, autarky is not an option. Decreasing productivity, increasing imports and decreasing exports will eventually result in deindustrialisation, job losses and reduction in the standard of living.

(Ismail, 1993:589)

The costs of autarky for South Africa would be high as its economy is extremely open and it is estimated that 80 per cent of South Africa's economic performance is determined exogenously (Bethlehem, 1991:4). Competing internationally will require adjustment away from minimising labour costs, protecting domestic markets and intensifying old production practices. As Fantu Cheru (1992:20) argues, international competition "must be based on technology innovation, product characteristics and labour productivity". The alternative is marginalisation from the benefits of globalisation.

3.3 Marginalisation and the debt crisis in the Third World

Most developing countries have not been able to take advantage of these global trends. Taken as a whole, while their role in the world economy has always been meagre, since the 1980s, it has been declining. In other words, most of the developing world is being marginalised from global economy. To be sure, the patterns were uneven. In the 1980s, some developing countries, particularly those in Asia and Latin America, enjoyed growth in their manufactured exports.

In contrast to manufactured goods, trade in primary goods, the developing world's main exports, performed poorly over the 1980s, in terms of both price and trade volumes. Primary product exporters (such as South Africa) fared poorly and moved down the ranks of trading nations.

As a rising proportion of FDI was taking place between the three

trading blocs in North America, Europe and the Pacific Rim, developing countries' share in FDI flows declined from 25% to 18% (Hirsch, 1992:44). Although investment flows to the developing world increased by 25 per cent percent in 1991 to a value of \$40 billion, Mexico and China attracted the bulk of these flows (Third World Economics, 16-31 May 1993). FDI flows to developing countries were highly concentrated in Asia and, to some degree, Latin America. Countries that were able to offer export platforms were the most successful at attracting FDI.

Inflows to Africa and the least developed countries remained at extremely low levels. In fact, sub-Saharan Africa (SSA) has become the most marginal region in the world economy. Despite some growth in the service and informal sectors, its production and consumption structures have changed very little since colonial times. SSA remains overwhelmingly agricultural, specialising in the export of low-value primary production. Moreover, SSA continues to import high value manufactured industrial goods. Given the recent trends in the global economy, it is not surprising that this has resulted in SSA registering the most severe declines in income for any region of the world.

Since the 1980, SSA has also laboured under disinvestment (Mhone, 1993:4). During the same period, SSA has become the most aid dependent region in the world. Although there are differences in economic performance between African nations, none has been able to transform itself along the lines of the newly industrialising countries (NICs). SSA's economic crisis arises out of the combined effects of the continent's historical subjugation, the pattern of its links to the global economy, political and social turmoil, debt, inappropriate economic strategies and environmental degradation.

As the sources of the crisis are manifold, explanations must acknowledge its multifaceted and mutually reinforcing nature. From pre-colonial times, these societies were inserted into the international division of labour as suppliers of primary products

and consumers of a range of manufactured goods. This basic pattern has remained largely intact. Systemic changes have, however, engendered a set of circumstances which has made this type of local accumulation, based as it is on the export of primary products, less capable of sustaining the basic investment and foreign exchange requirements for socio-economic development.

The most salient of these changes - or external 'shocks' - include i) a long-term decline in the terms of trade for primary products; ii) rising oil prices which precipitated a prolonged global recession and depressed demand for these products; iii) environmental scourges; iv) regional and international conflicts; v) technological innovations which established substitutes for their products; and vi) barriers in the Northern markets for goods from the Third World, now being reinforced by the emergence of increasingly protectionist trading blocs in North America, Europe and the Pacific Rim (Third World Economics, 16-31 May 1993).

Nevertheless, the rapid economic development of the NICs who just two decades earlier faced similar economic constraints signals that something is missing from this explanation. It needs to be explained why some developing countries were able to 'take-off' and others did not. World Bank and IMF interpretations provide some insights. In their view, economic problems were exacerbated by the implementation of misguided and counterproductive interventionist government policies which attempted to i) pursue self-reliance through nationalisation and regulation of the 'commanding heights' of the economy; ii) control consumer and producer prices of selected products and services; and iii) hasten industrialisation by strategies of import substitution behind high protective tariff barriers (Mhone, 1991:11-12).

In the Bank and IMF's view, such policies resulted in gross misallocation of scarce resources. Distortions were most pronounced amongst 'socialist-oriented' countries whose economies were most heavily regulated. It is argued that states which

pursued policies restricting the free-market became increasingly hostile and inhospitable to international capital, and thereby excluded themselves from the benefits of globalisation.

The pace of marginalisation, moreover, has been hastened by the effects of 'donor fatigue' and the imperatives of re-constructing post-communist Eastern Europe and the post-Gulf War Middle East. These rivals for aid and capital are regions of closer proximity and greater strategic value to the core centres of global capital (Cheru, 1992:3).

The drift towards marginalisation was in many cases accentuated the Third World debt crisis of the early 1980s. As the value of primary exports continued to plummet, developing nations began in the 1970s to borrow extensively from Western banks to alleviate foreign exchange and investment shortfalls. During the mid- and late-1970s, loans were easily forthcoming at generous repayment rates as the international financial system was awash with recycled petrodollars. Between 1970 and 1980 this source of finance grew at 20 per cent a year in real terms against growth of only 2.7 per cent a year in private investment (Harvey, 1990:3).

The cost of servicing debts rose sharply at the end of the 1970s as the US dollar and dollar interest rates appreciated rapidly (Krugman, 1993:7). The resulting debt-servicing burden exacerbated developing nations' economic plight and crushed any potential for economic growth by diverting local resources towards repayment of debt. In 1989, SSA's debt stood at US\$ 161 billion, making it the most indebted region in the world (Southern, September 1991). SSA's debt burden was equivalent to 96.9 per cent of its Gross National Product (GNP). In terms of the ratio of debt to exports, the figure was 312 per cent and debt per capita was \$437 as compared to GNP per capita of \$449 (Cheru, 1992:12).

By the mid-1980s it was evident that none of the debtor countries

was remotely capable of servicing its debt unless it was able to engage in fresh borrowing. Krugman (1993:11) observes that

It was of course widely accepted that the adjustment problems caused by the need to switch rapidly from debt-financed trade deficits to debt-servicing large trade surpluses had thrown developing countries into severe recession... [and] the level of debt itself acted as a constraint on growth.

3.4 The role of the IMF, the World Bank and the GATT

The debt crisis was also significant in that it opened the way for greater IMF and World Bank involvement in framing the economic policies of developing nations. In other words, as developing countries sought financial assistance, the IMF and the Bank gained the leverage to impose their particular economic philosophy on the policies of debtor nations (George, 1988:48).

The immediate objective of SAPs was to avert collapse of the international financial system by preempting widespread defaults by debtor nations. As the preeminent 'debt manager', the IMF effectively arranged a rescheduling of debt and ensured that it continued to be serviced. SAP's longer term objective aimed to restructure the economic regimes and policies of developing nations along more liberal and outwardly-oriented lines. It was assumed that this would encourage their integration into the global economy and put developing countries on the path to sustained economic recovery.

The scope and severity of IMF and World Bank's conditions are dependent on the levels of assistance required and the capacity to repay debt. Debtors must sign a 'letter of intent' agreeing to conditions set down which "dramatically alters the national economic priorities and strategies of borrowing countries" (Padayachee, 1993:2). Although the amount that the IMF lends is not particularly substantial, its 'seal of approval' in regard to the direction of a nation's overall economic policy is critical. It determines a country's overall creditworthiness in

the eyes of the world's financial community and is an essential precondition for gaining access to resources from private banks through the financial packages which the IMF puts together for investors and for developing countries (Korner et al,1986:21).

Adjustment policies aim to restore the role of the market by combining deregulation, privatisation while ensuring that market-related prices permit efficient allocation of resources. In addition, they seek to promote and encourage balance in the state budget and its external balance of payments. While the conditions of SAPs vary in detail, their main elements contain i) liberalisation of foreign exchange and import controls; ii) devaluation of exchange rates to foster exports; iii) anti-inflationary programmes which include control of bank credit, higher interest rates, higher reserve requirements, control of government deficit, restrictions on spending, abolition of consumer subsidies and price controls; and iv) greater hospitality towards foreign investment (Schatan,1987:35).

Nevertheless, the IMF and World Bank's adjustment policies in developing nations are not noted for their success. At best, their effectiveness is mixed. For most developing countries, overall declines in production and the drift towards marginalisation have not been reversed. This is largely because, as Vishnu Padayachee (1993:2) observes,

... the focus has been on adjusting economic policy to maintain external balances... [and] has tended to view external imbalances as being a temporary condition, rather than a manifestation of a deeper structural problem.

A basic deficiency in IMF and World Bank adjustment policies is the focus on short- to medium-term resource shifts, with disregard to longer-term development needs. By encouraging specialisation, SAPs reinforced developing nation's dependence on, and vulnerability to, the vagaries of global commodity markets. Increasing exports resulted in commodity gluts in world market which, in turn, further reduced world prices for primary

products (Cheru, 1992:11).

Despite the fact that net transfers from developing world to industrial countries approached US\$280 million over the last decade, overall debt between 1984 and 1992 increased (Krugman, 1993:13). While some exports became more competitive, devaluation aggravated debt-servicing ratios. Meanwhile, the reduction of government subsidies effectively shifted the burden of debt repayment onto the poorer and more vulnerable sections of the population.

The underlying problem in adjustment policies as advocated by international financial institutions is their 'blanket' liberalisation dogma. Inadequate attention is granted to the specifics of each country. Economic development has many facets and cannot be accomplished by market forces alone as the experience of Japan and, more recently, the NICs demonstrate. In these cases, the state played an abiding role in guiding and facilitating investment decisions. So, while opening up markets may be necessary, it is not sufficient to initiate economic development.

In many developing countries, the differential effect of SAPs on societies has generated conflict between different social and class forces. Politically, as Thomas Ohlson (1993:7) points out, SAPs are "a conflict generating programme without a conflict resolution component". Governments in these countries have seen their already tenuous authority and legitimacy being further eroded. To the extent that SAPs undermined the political and social fabric of society, its imposition has made prospects for sustainable economic development more difficult.

Hence, it is not surprising that SAPs have lacked legitimacy, commitment and support from both Third World governments and their populace. This resulted in the IMF and the World Bank adopting a carrot-stick approach in their dealings with Third World governments in order to coax them into implementing these

policies. Padayachee (1993:2) explains:

Despite their unhappiness with IMF prescriptions (and the occasional attempt to challenge them), many developing countries have had little choice, given their integration into the networks of world trade and investment, and the limited, virtually non-existent sources of alternative credit but to remain members of the IMF.

Developing nations' scope to manoeuvre in their dealings with the IMF has narrowed. The IMF's seal is an unavoidable and key consideration in framing economic policy as it has become the gateway to international capital markets.

There are conflicting views on the intentions of neo-liberal policies as advocated by the IMF and the World Bank. In particular, there is a contradiction between the aim to foster greater economic integration across national boundaries and the deleterious impact the global economy has on developing nations' economies. Moreover, while liberalisation policies are being advocated for developing economies, the emergence of trading blocs amongst industrial nations shows signs of growing protectionism. This further complicates development efforts in the Third World.

The Uruguay Round of GATT negotiations, concluded in December 1993, illustrated industrial nations' equivocation towards liberalisation as it entrenched protectionism in areas beneficial to the North. While the negotiations succeeded in cutting average tariffs by forty per cent over the coming decade, they were also characterised by the North's attempt to shape the economy policies of developing nations.

The Uruguay Round went beyond the scope and substance of past negotiations which were largely confined to trade issues and practices that impeded cross-border transactions.

The new round has seen the emergence of a new paradigm which: i) brings in new issues of services, investment and intellectual property protection onto

the agenda of negotiations; ii) elaborates a selective approach to definition of negotiations objectives in different areas; iii) works for an integrated enforcement mechanism for various areas under negotiations.

(Shukla, 1993:12)

What emerged from the Uruguay Round was that continued access to Northern markets is conditional upon developing countries agreeing to what is being prescribed in areas relating to services (banking, insurance, tourism, transport and others), intellectual property rights (TRIPs), trade-related investment measures (TRIMs), agriculture and the Multifibre Agreement (MFA) on textiles.

Although there is a fair amount of freedom in the matters of opening up specific sectors of services, the industry is due to be liberalised. With most developing countries being net importers of services (except in tourism), developed economies appear poised to reap the most benefits from the opening of these markets. The liberalisation of services is, in turn, linked to the agreements on TRIMs and TRIPs.

The agreement on TRIPs aims to harmonise and strengthen patent and copyright protection standards as well as enhance national and international enforcement capacity. TRIPs are important to industrially advanced nations as they possess a near monopoly in the research and development of new technology. Thus, they sought to reinforce their advantage by raising the patent and copyright protection standards; patent protection laws will now extend for twenty years while copyrights will have to be respected for fifty (Financial Mail 24 December 1993).

What does this mean for developing countries? In the past, developing countries resorted to various licensing agreements to encourage technology transfer. This access point will now be restricted as it will no longer entail simply implementing patent law provisions. Instead, technology transfers will be reviewed on a case by case basis. This will mean higher royalty costs;

less indigenous production; more imports; cost escalation on all goods in manufacturing and high tech products; higher prices for drugs and medicines; and greater reliance on TNCs who hold a near monopoly in the knowledge and technology in these areas (Shukla, 1993:17).

The agreement on TRIPs will effectively prevent 'learning by borrowing' technology which was crucial in the economic development of Japan and the NICs. As a result, developing countries will now have to find new ways to lure TNCs to gain access to leading edge technology and investment (Trade Monitor #1, February 1993). This ties up with the agreement on TRIMs.

TNCs seek to establish international agreements - or regimes - which permit capital to move without hinderance from national governments who may have conflicting ideas of national goals or social priorities. Thus, the industrial nations demanded that issues of investment regimes be brought into the negotiation process with the objective that all regulatory activity and measures affecting TNC operations be negotiated away. In effect, TRIMs reduce a country's freedom to make its own investment rules or regulate foreign investment. It will also mean that laws requiring foreign enterprises to purchase inputs from local sources will have to be revoked (Trade Monitor #1, February 1993).

In a reversal of the general trend towards liberalising economic regimes, industrial nations managed to extend the MFA for another ten years. This curtails competitive textile imports from the developing countries. Although this aspect of the agreement is overtly protectionist and anti-competitive, it did not deter the industrial countries from adopting a selective definition of its negotiating objective in this area (Shukla, 1993:19).

Negotiations on subsidies, tariffs and agricultural regimes also reflected Northern interests. The GATT agreement prohibits any subsidy which is paid on the basis of export performance or on

the use of domestic rather than imported goods. Also, according to the new GATT regime, indirect subsidies must be removed if they discriminate against the domestic industry another nation that is a signatory to the Agreement. Since subsidies and tariffs are important mechanisms for development and export-orientation, by restricting the use of these instruments, developing nations which have not made significant inroads into world markets will be precluded from becoming successful exporters in the future (Trade Monitor #1, February 1993).

The negotiations affecting agriculture were striking mainly because of their comprehensiveness (Shukla, 1993:12). The agreement brought the whole gamut of export subsidies, import regime restrictions and domestic support regimes under the purview of GATT. All members will, for the first time, bind themselves to reducing/eliminating export subsidies. Agriculture will no longer have the protection necessary to maintain its role in economic development.

The approach did not recognise the vastly different roles agriculture plays in development in some Third World countries. For developing nations that are major producers and exporters of agricultural products, the Uruguay agreements will strip away support regimes which are critical to its continued role in development. Reducing subsidies will prove detrimental to countries which are dependent on food imports, as overall agricultural prices will tend to rise (Trade Monitor #1, February 1993). In effect, the approach at the Uruguay Round was oriented towards trade, not development.

The new regimes on intellectual property and agriculture place onerous demands on the economies of the developing world. At the same time, the GATT proposals pose serious dangers to the very autonomy of developing nations' policy-making in areas which are central to their economic development. Although developing nations resisted the implementation of these measures, their resistance and unity crumbled during the seven years it took to

negotiate the Uruguay Round as the US threatened unilateral retaliation in terms of its domestic trade law (Section 301).¹ As it now stands, these same pressures operate within the GATT rubric and can now be enforced through the terms of cross retaliation measures agreed to in the negotiations.

The Uruguay Round demonstrated the weakness of developing nations as they were forced to concede sovereignty in key aspects of their economic policy-making. Indeed, in terms of the new GATT provisions, they must liberalise their regimes in the affected areas. Yet, the industrial countries did not hesitate to employ anti-liberal and anti-competitive protectionist measures where it worked to their advantage. In short, the multilateral character of the GATT does not diminish the fact that the system works to the advantage of the industrialised countries and, now, it bestows a certain legitimacy on their actions.

3.5 The rise of regional economic blocs

The trend towards 'pooling sovereignty' through regional economic arrangements reaffirms those arguments which suggest limits to traditional concepts of the nation-state and sovereignty. As countries turned to global markets, a paradoxical consequence has been increased pressures for closer integration at the regional level. These developments have been evident in North America (NAFTA), Europe (the European Union or EU) and amongst nations in the Asia Pacific Rim.

Current regional efforts are distinctive because they involve investment as well as trade. As Albert Bressand (1990:47) has argued in respect to the European experience which is the oldest and most advanced example,

¹ This provision of the 1974 US Trade Act gives sweeping powers to the President and, in some instances, to the US Trade Representatives to take action against any foreign government practice that is deemed discriminatory and restricts US commerce or firms in foreign or domestic markets (see Grinspun and Cameron, 1993:334).

Europe has embarked, almost unknowingly, on what is gradually being perceived as a pace-setting effort to unleash a new economic dynamic centred on services, technology, advanced and integrated public infrastructures and corporate cross-border networking strategies... the project needs to be seen as the first example of a post-interdependence dynamic in which trade is only one of the dimensions of a far more complex set of cross-border interactions.

While these arrangements are designed primarily to place the respective regions on a firmer footing for intensified global competition, the threat is that they may lead to trade wars if blocs become increasingly protectionist. Given the fact that the Third World's survival - never mind its prosperity - is dependent on access to Northern markets, the 'rules of the new economic game' will prove more difficult to master.

The critical question is whether regional blocs will become an impediment or an intermediate step towards deepened international economic integration. The trend is currently ambiguous and the evidence mixed. Even if regions do not become overtly protectionist, there are fears that those in the developing world who are excluded will become increasingly marginalised. Nations outside the thick networks of trade and investment that have been cemented by regional policies and corporate strategies could find it increasingly difficult both to gain access and to attract foreign investment (Lawrence, 1993:6).

By their very nature, however, trading blocs cannot be autarkic; if their consolidation leads to overall growth in the world economy, it could provide generalised benefits. A sudden movement towards closed blocs is unlikely because extra-bloc trade is too important for any of the current or prospective regional arrangements to sacrifice. For example, two-thirds of US trade is outside the Americas (Trade Monitor #3, August 1993).

Moreover, regional blocs have not been unequivocally detrimental to the Third World. For example, the European Union (EU) has transferred billions of dollars to the South through preferential

trade agreements and aid regimes established in the Lome Conventions which tie Europe to various Asian, Caribbean and Pacific (ACP) nations (Trade Monitor #2, March 1993). Yet, as Cheru (1992:11) observes,

Although the Lome Convention provides all southern African countries, with the exception of South Africa, with duty free access to the European Community markets, non-tariff barriers and related measures are being used as significant barriers to wider entry into the European markets. A feature of many of these barriers is that they are tied to the degree of processing. The higher the degree of processing, the higher the barrier.

Accession to the Lome Convention would benefit South Africa both in terms of the package of trade preferences it offers and the scope it provides for future exports, both of which are non-reciprocal. Lome would provide South Africa a definitive relationship with its most important export market (Montgomery, 1992:94). In addition, South Africa would qualify for financial assistance in terms of Lome's Sysmin package. This package compensates mineral exporting countries who experience earning losses due to 'external shocks'.

It is, however, important not to overestimate the benefits of the Lome Convention. Less than 20 per cent of South Africa's exports would benefit because most of its current exports to Europe are not subject to any restrictions. Moreover, South Africa's accession could pose a range of threats to other ACP countries who will have to compete with South Africa for markets and for sources of investment and aid. One of the positive consequences of South Africa's accession would be that regional processing would meet the requirements of the rules of origin and thereby stimulate intra-regional trade in southern Africa.

Indeed, the prospects of enhanced regional economic cooperation and/or integration in southern Africa have been revitalised. The region has a history of economic cooperation in the form the Southern African Development Coordinating Conference (SADCC) which transformed itself into the Southern African Development

Community (SADC) in August 1992 and in the Preferential Trade Agreement (PTA). The revived interest in the regional project has much to do with the prospect of a post-apartheid South Africa lending its weight to the process. Although many political, economic and institutional problems need to be addressed, in terms of long-term development prospects, South Africa will benefit from greater regional cooperation and/or integration.

An economically powerful South Africa is seen as the only African country with the economic and technological base capable of serving as a centre of regional economic development (Far Eastern Economic Review, 15 June 1992). Indeed, international support is increasingly being predicated on South Africa playing a 'positive' role in the region.

It is ... becoming increasingly clear that many of the advanced industrialised countries are making a linkage between the type of trade/aid/ investment package they may be prepared to negotiate with a democratic South Africa and the role this country is seen to be playing in Southern Africa.

(Davies *et al*, 1993:20)

If South Africa normalises its relations with southern Africa, foreign investors recognise the enhanced opportunities which will flow from the larger regional (SADC) market. Foreign business and governments appear eager to cooperate with South Africa and other regional governments in fostering economic and infrastructural development across the subcontinent (Far Eastern Economic Review, 25 June 1992).

In this light, marginalisation is by no means inevitable and there is a fair scope to ensure that the threat recedes further. In addition, policies which strengthen South-South cooperation may also stem the drift. There are significant opportunities for enhanced regional coordination, cooperation and/or integration. Robert Davies (1990) has identified trade; resource and infrastructural projects and development; (re)construction and engineering; agriculture and food security; and technical, scientific and managerial cooperation.

Despite a general commitment to the goals of regional integration amongst regional and international players, the terms and conditions still need to be worked out. Meanwhile, the World Bank, the IMF and the EU have announced their support for a regional project in southern Africa, but stipulate that it proceed along *laissez faire* lines. This view contains a variety of assumptions and objectives of which the most important are that regional integration is i) premised on the interests of business; ii) designed as an intermediate step towards closer integration into the global economy through rapid trade liberalisation; and iii) to strengthen existing structural adjustment programmes (Keet, 1993:6-7).

In short, the basic role of donor support will be toward overall, collective economic liberalisation of [southern African] countries by improving conditions for a more active role by private agents across the frontiers of the region. The approach is designed to be consistent with and to promote liberalisation efforts at the national level....

(Cheru, 1992:5-6)

These are questionable on several counts. First, business interests are not always the same as other regional forces such as governments or trade unions (civil society). Second, the assumption that trade liberalisation is the basis of sustained economic growth runs contrary to the Asian experience and to the objectives of regional integration which seeks to encourage intra-regional economic links. Moreover, unilateral trade liberalisation will undermine the region's already weak bargaining power within the GATT, where liberalisation is based on negotiation and reciprocity (Davies et al, 1993:39). Finally, the Bank tends to ignore the severe effects SAPs have had on sub-Saharan Africa.

The sheer financial power of these actors, however, will make their proposals difficult to resist: they are able to offer financial incentives and/or threaten financial sanctions to economically desperate nations. More worrying, however, is that these proposals will pre-empt existing regional plans which

appear more capable of creating the basis for equitable and sustainable regional economic development.

The alternate view is contained in the developmental integration approach to regional development. In this approach, regional programmes would be based on the principles of equity, mutual benefit and interdependence. They would aim to transform existing patterns of regional integration, rather than merely extend existing ties, and would be constructed with the explicit acknowledgement of the disparities and inequities in existing relations and a commitment to overcoming these. In sum, this approach presents a more collaborative, equitable and balanced vision of regional integration (Davies, 1992).

A basic premise in this view is that South Africa's long-term prosperity and stability is inextricably tied to that of its neighbours. In other words, South Africa will ignore the plight of the region at its own peril. Aside from hampering domestic economic growth prospects,

A region ... plagued by violent conflict and economic stagnation... [would] create a situation in which South Africa, along with other countries in the region, would be bound to feel the impact of such 'spillover effect' as mass migrations and possible illegal weapon flows.

(Davies et al, 1993:19)

Linked to this is the view that the benefits of integration need to be shared amongst regional partners. The history of regional projects worldwide shows that they flounder when some parties benefit disproportionately. The developmental integration approach advocates negotiated sectoral and cross sectoral agreements which combine market dynamics with regulatory coordination. Moreover, it incorporates balancing corrective and compensatory measures within regional investment and development strategies (Keet, 1993:2).

Such programmes are more likely to place the region on a firmer and more sustainable development path. In this view, foreign

interventions would need to engage South Africa and the region in a manner which fosters equity as well as efficiency. An uncontrolled expansion of economic links may have the effect of entrenching existing economic imbalances and inequities with dire long-term consequences for both South Africa and the region.

Concerted effort to address historical imbalances within South Africa, and between South Africa and the region, should therefore become a central part of foreign investor calculations. This will be of practical benefit to their interests; by contributing to equitable regional economic development - which is the basis of regional peace and security - the region will be strengthened in a way which makes markets and sources of raw material more secure.

3.6 Emerging challenges to neo-liberal orthodoxy

There is a growing chorus which is disputing the neo-liberal orthodoxy. Japan's challenge to the Washington-London dominance in the IMF has important implications for developing nations. Japan's post-war economic strategy - wherein the state played a pivotal role - contrasts sharply with the free-market prescriptions of the IMF and the World Bank. As Japan flexed its economic muscle in the IMF, it has questioned the prevailing wisdom on the utility and content of SAPs (Far Eastern Economic Review, 18 June 1992). Given the deleterious effect these prescriptions have had on SSA, this new current may provide some welcome relief.

Similarly, a report prepared for the World Bank by the Japan Development Bank and Japan Economic Institute is critical of the doctrinaire policy advice of the Bank and the IMF (Third World Economics, 16-31 May 1993). The report takes exception to SAPs' uniform policy mix with its heavy reliance on market mechanisms, trade liberalisation, liberalisation of financial markets and institutions and privatisation. It argues that policies forced on developing countries were bound to fail as they were ill-

conceived in the first place. To take one example, it argues that at times of deep economic crisis, deregulation of financial markets - as advocated by the IMF and World Bank - almost inevitably leads to instability and undermines the objectives of raising domestic savings and investment.

A key feature of Japanese and NIC strategies involved the private sector and state working together to identify strategic industries which would require government support and protection during the initial years of production. By carefully regulating and monitoring their performance, many industries became highly competitive in global markets. The success of these strategies can be largely attributed to government playing a key role in guiding and facilitating the shift of resources towards structurally desirable development objectives. Studies also show that Japan's policy-based financial system of government funding and coordination in promoting industrialisation played an enormous role in its economic growth.

A common feature of all successful industrialisation is that finance is made to serve industry and trade. This requires state intervention to direct preferential credits and induce the private sector to achieve certain policy objectives. Steering credit in certain directions and underwriting production during the learning process were important instruments employed by the NICs in achieving their economic 'miracle'.

In the same vein, a United Nation Development Programme study warns against the indiscriminate privatisation of state-dominated industries (Third World Economics, May 1993). Not all public enterprises lose money or are inefficient and neither is the private sector always efficient or productive. While privatisation opens the way for foreign investment, it is by no means a panacea and it could revive fears of foreign domination.

Measures such as exchange rate depreciation, the use of state intervention to facilitate institutional transformation, asset

redistribution, elimination of bottlenecks, counteracting external shocks and human resource development have to be structured circumspectly to take into account the specific conditions in each country. The generalised and stylised nature of SAPs does little justice to the analytical thrust behind liberalisation and the need for adjustment (Mhone, 1991:13-14).

Thus, while the rationale and motivation behind liberalisation are well taken, its simplistic form and undue reliance on market mechanisms diminish its efficacy. Adjustment, therefore, is to be understood as a necessary but insufficient condition for development. Generally, both the diagnosis of the predicament of SSA and the outward market-oriented prescriptions are correct, but they need to be complemented by domestic studies which determine the details of policy formulation and implementation germane to each country.

These are critical issues for South African policy-makers to consider. It is widely accepted that the economic strategies pursued by the NICs and Japan may well be more appropriate models for a post-apartheid development strategy than those suggested by the IMF or World Bank. Moreover, as South Africa regains access to international financial institutions, its policy-makers need to exploit these fissures and debates to ensure that South Africa's national economic objectives are granted priority.

3.7 Policy implications for South Africa

John Chipman (1992:137) has observed that "the future is always a compromise between novelty and repetition". The current conjuncture presents new constraints and challenges for every nation, including South Africa. The end of the Cold War has set new parameters which demand fresh approaches and economic strategies need to be carefully considered in light of new circumstances. This requires a sense of responsibility which transcends ideological and political rhetoric (Johnston and Shezi, 1993:172). The foregoing analysis has demonstrated the

global trend towards political and economic liberalisation.

There will be intensifying pressure on South Africa to liberalise its economic regimes and policies. As indicated, liberalisation is being vigorously promoted by formidable international organisations including the GATT, the IMF and the World Bank. These western-dominated institutions are manifestly hostile to strategies deemed excessively interventionist or socialist-oriented. Moreover, to oppose the global trend implies marginalisation or autarky; a recipe for economic disaster in South Africa's case. In short, South Africa is obliged to engage the global economy and find ways to compete for a greater share of its benefits.

Nevertheless, the international system remains largely undemocratic and its economic structures continue to undermine prospects for sustainable economic development in the South. Thus, policies will need to be underpinned by strategies of both accommodation and challenge. While a future South African economic policy will seek concessions and accommodation in a world structured by the major players, it will have to challenge those structures which are inimical to its own economic development.

It is accepted that the rules of competition cannot be flouted. While economic adjustment is required, this does not obviate the global lesson which shows that the manner in which this has been pursued, at the behest of global financial and trade institutions, needs to be reconsidered. What is required is a process of adjustment in which the planning, sequencing and phasing of measures is carefully structured in order to avoid the pitfalls and dangers which resulted from the rapid and unilateral liberalisation measures of the 1980s (Mhone, 1991:13).

South Africa needs to exploit whatever comparative advantages it finds available. In the short-term, it will retain a residual amount of 'moral capital' which derives from its long struggle

against apartheid. Many world leaders have expressed enthusiasm for South Africa's democratic transformation and pledged support for the process. South Africa has, in addition, more enduring 'inherent and developed' comparative advantages which include a well-endowed natural resource base; a relatively strong productive base; a relatively - by African standards - well-developed infrastructure and; advanced financial, banking, legal and communication networks and proximity to regional markets (Padayachee, 1993:10).

In the past, the EU supported regional integration efforts in southern Africa. Moreover, South Africa continues to command the EU's attention even if it is out of proportion to its real strategic value (Baynham, 1992:90). For historic and commercial reasons, European leaders are eager to see South Africa succeed in its democratic transformation and become the 'engine of growth' for the entire region. Post-apartheid policies will need to nurture this attention.

Aside from the European interest, the Asian Pacific Region is becoming a major source of surplus capital and its growing involvement in the South would contribute to fostering economic growth and development. In particular, an enhanced role for Japan is promising given its considerable economic power and the interest it has already shown in South Africa and the region.

Japan is currently the largest contributor of international aid to developing countries and while some of the conditions are contentious, aid is an important element in development efforts (Kawabata, 1993:11-15). It is not unlikely that in a few years Japan may once again become South Africa's leading trade partner (Baynham, 1993:90). Despite accounting for less than one percent of Japan's total international trade, Japan is heavily dependent on South Africa for a range of strategic rare metals and raw materials. Japan appears willing to cooperate with South Africa and other regional governments in fostering economic and infrastructural development across the subcontinent.

The Japanese Foreign Ministry, in particular, is adopting a long-term perspective which foresees Tokyo representing Pretoria's interests by finding markets in Asia for South African mines. This appears to be part of Tokyo's effort to offset the growing economic influence of China and Taiwan in the region (Far Eastern Economic Review, 25 June 1992).

In terms of investment, many Japanese firms are keen to re-enter the South African market. Various delegations have visited South Africa to explore investment opportunities and leading Japanese automobile and electronic manufacturers aim to displace European suppliers who currently dominate South Africa's luxury goods markets (The Star, 22 April 1991).

Given the fact that a major legacy of the post-Cold War era appears to be the growing North-South divide, South Africa cannot ignore 'Southern' concerns. After all, South Africa's destiny is inextricably tied up with the fate of the South, in general, and with southern Africa, in particular. Global alliances which aim to redress inequality, instability and insecurity need to be (re)discovered and fostered.

Thus, in addition to fostering greater involvement by the North, policies which strengthen South-South cooperation can also stem the drift towards marginalisation. In southern Africa, debates to restructure regional economic and political relations have been revitalised. The renewed interest has to do with the prospect of a democratic South Africa playing a meaningful and constructive role in the region.

In terms of its relations with the World Bank and the IMF, Padayachee (1993:17) counsels an approach of 'critical engagement' which recognises the dangers of following their usual prescriptions and draws their attention to the state of the economic crisis and its underlying structural causes. In this way, it may be possible to

... convince them to direct appropriately-designed

loans into certain crucial areas of the economy, such as education, skills development, health and housing (which were heavily neglected in the apartheid years), and other development projects which are labour absorptive, without imposing too onerous a set of policy prescriptions as preconditions.

(Padayachee, 1993:18)

There are certain imperatives in dealing with the IMF. It will not always be possible to avoid external balance of payment imbalances given the uncertain and volatile global economy and commodity markets. In such instances IMF resources will be required, but these must be seen as temporary measures (Padayachee, 1993:18). It is crucial to formulate credible long-term strategies which ensure stability in South Africa's external balances and maintain international creditworthiness.

In fact, the integrity of nationally-determined economic objectives will largely depend on avoiding excessive dependence on external sources of finance and capital. If borrowing does become necessary, South African policy-makers would have to convince the IMF that its economic policies are realistic and they should negotiate the terms of loans keeping in mind the issues mentioned earlier with regard to SAPs.

The post-apartheid state would also need to take advantage of the fact that the World Bank wishes to present South Africa as a success for its interventions to restore its own image in the developing world. Recent modifications in the Bank's structure portend well in this regard. The Bank will now become publicly accountable for its actions through the creation of an independent inspection panel that will investigate complaints stemming from the Bank's failure to follow its own operating procedures (Weekly Mail and Guardian, 17-22 December 1993). These cover all aspects of development planning and implementation, and will grant countries like South Africa a forum to raise complaints and receive meaningful responses.

While the panel can only provide recommendations to the Bank's Directors, greater transparency in the Bank's operations is a

positive development. In addition, South Africa is seen to be an important test case as the Bank seeks to develop more a participatory form of World Bank-borrower country relations. By making effective use of the Investigation Panel, South Africans can help ensure that the public's ability to hold the Bank accountable for its actions becomes a central element in these relations.

The GATT objective is to liberalise international economic relations and stimulate global trade. Although it is evident that Northern powers dominate, determine the terms of, and extract most of the advantages from the GATT, advantages may flow to developing countries via freer trade in primary commodities in the context of expanding world trade (Third World Economics #66, June 1993).

In the long-term, South Africans can look forward to lower prices on a range of consumer products. In the short term, however, industries that have prospered under tariff protection are likely to collapse if they are unable to adapt to a more competitive international environment. Increased export opportunities will open up but South African industries will have to compete vigorously against other nations. South Africa will continue to enjoy advantages in those fields it already excels in such areas as the export of coal and ferro-alloys. Intense global competition in the clothing, textiles and footwear sectors will be a more difficult challenge to respond to (Financial Mail, 24 December 1993).

While the GATT will likely provide benefits to South African agricultural exports, the Multifibre Agreement, agreements on services, trade-related investment measures and trade-related intellectual property rights may have more negative effects. If South Africa is granted developing nation status within the GATT, however, it will be able to take advantage of the special and differential clauses which grant developing countries more time to restructure their economies more competitively. The point is

that the GATT process is not a uniform one and the South will need to carve out additional concessions on the basis of new alliances within the GATT (Trade Monitor #1, February 1993).

South Africa has a range of comparative advantages that will assist its development and there is significant international interest in the region's future. Despite problems and obstacles, regional economic integration holds great potential for both South Africa and its neighbours.

It is important to reiterate the basic points. Economic liberalisation is not a uniform or inexorable process; there are many middle-range options which need to be carefully considered. The system is not monolithic nor immutable and while it poses severe constraints, it also offers up a range of opportunities and challenges. As Padayachee (1993:16) argues,

While strategies for disengagement and autarkic national development are virtually impossible today, the integration of the capitalist economy across national boundaries has not entirely rendered impossible the pursuance of economic strategies which are oriented towards national, domestic ends.

CHAPTER FOURTHE NATIONAL CONTEXT: NEGOTIATING A SETTLEMENT UNDER CONDITIONS OF POLITICAL STALEMATE AND ECONOMIC STAGNATION

The African National Congress' (ANC) struggle against apartheid was waged primarily on the political and ideological terrain. Whilst the effects of apartheid permeated South Africa's entire socio-economic fabric, as long as the National Party (NP) remained wedded to apartheid, effective resistance demanded that the question of political power be addressed first and precede all attempts at social transformation.

Before its unbanning, most analysts in the ANC and the anti-apartheid movement expected that the South African government would concede power only after an intensification of a popular armed insurrection. The prospect of a negotiated settlement seemed unlikely because it would require a fundamental shift by an apparently intransigent regime. Had the ANC gained political power through armed insurrection, the balance of forces in South Africa would have been qualitatively different. The ANC would have emerged stronger both militarily and politically and would have been more capable of ensuring a revolutionary transformation of South African society following its assumption to power.

As Vivian McMenamin (1992:248) pointed out, however,

... there is growing recognition of the strength and durability of the current state and of the interests it represents. It is clear that the balance of forces will not be entirely favourable to democratic aims. This has necessitated a shift away from policies which may be morally and politically correct but will cause strong adverse reaction from powerful local and international interests. It has therefore become imperative for the ANC to develop policies which are both defensible and sensitive to local and international conditions.

The transition to a post-apartheid era was a great achievement for the liberation movement. However, as long as formal political and state power eluded the ANC, the victory remained

incomplete. The fact that the ANC was unable to fully realise its objectives during the transition, in effect, shaped the nature of the transition. It reflected a particular balance of forces in South Africa and impacted on the ANC's capacity for policy formulation as well as the direction of its policy. In short, the ANC's decision to embark on a negotiated constitutional settlement drastically altered the parameters within which national economic policy would emerge.

In an attempt to unravel these domestic constraints, this chapter is divided into two broad sections. The first describes and analyses the unfolding domestic political processes which shaped and constrained the ANC's capacity to formulate economic policy. Section two examines the nature of South Africa's economic crisis since it is this the ANC's post-apartheid economic strategy seeks to address.

4.1 The politics of stalemate and the state's offensive

Towards the end of the 1980s, the South African government began to concede that its policies of reform, co-option and repression could not alleviate its intensifying crises of legitimacy and hegemony. Aside from failing to curb the growing power of internal resistance, repression accentuated South Africa's growing international isolation. The state's policies of reform and co-option were entirely rejected by the ANC and its allies in the Mass Democratic Movement (MDM). Its policies simultaneously alienated sectors of the National Party's (NP) white constituency and provided a growing support base for the white right-wing. Essentially, this constituted the NP's hegemonic crisis (Booyesen, 1990:47).

In contrast, the ANC, the government's main protagonist, continued to enhance its legitimacy even amongst Pretoria's erstwhile external allies while reclaiming its central role within the camp of popular resistance (Saul, 1991:6). Until 1989, the NP was unable to fully abandon its discredited ideology and

increasingly futile programme. Once F.W. De Klerk assumed the state presidency in that year, however, the NP began responding more pragmatically to overcome the deepening impasse.

It is note worthy that De Klerk's dramatic announcements in February 1990 reflected a basic continuity in NP policy but with significant changes. In other words, the prerequisite policy shifts occurred much earlier at the NP's federal congress in 1986 when the principle of one citizenship for all South Africans in an undivided South Africa was accepted. The announcements of February 1990, therefore, "saw the NP providing the moral commitment to the implications of already existing policy" (Humphries, 1990:8).

The implications were profound. An insight into NP calculations, not fully appreciated at the time, was intimated by Professor Willie Breytenbach at a conference in Paris in December 1989.

He suggested that De Klerk and his advisors believed the security option could not solve South Africa's problems, and more importantly, that the National Party could take on the leading liberation movement, the ANC, in open political combat and win.

(original emphasis; in Haysom, 1992:7).

Paradoxically, the crises belied the fact that, at the central level, state power remained intact. The government was in no immediate danger of losing control over the broader over-arching agencies of administration and control. It retained massive powers of repression, access to huge financial resources and top-level bureaucratic coherence. Booyesen (1990:48) argues that

The Government was strongly motivated by the fact that early entrance into negotiations would ensure its operation from a basis of strength and would enhance the prospects of having much of its own agenda imposed on the process. The rationale for entering into negotiations therefore was a curious blend of being powerful and yet experiencing a severe crisis. The continued strength of the state encouraged a swift commencement of negotiations.

The solidity of the ANC power base also figured into government

calculations. First, whereas the government had a well-oiled political machine already in place, an unbanned ANC would still have to re-establish itself inside the country before it could begin to organise and mobilise its support base. The state thus retained the capacity to control at least the early pace of the process.

Second, while the ANC's popularity appeared to be extensive, government analysts (mistakenly) believed it was largely symbolic and could dissipate if the ANC was forced into open political competition around specific policy issues. Finally, the changed global environment left the ANC largely dependent on Western endorsement. This support was predicated on an expectation of an ANC commitment to compromise and integration rather than revolution and radical transformation (Schlemmer, 1990:8).

In February 1990 the government committed itself to multi-party negotiations to devise a new political settlement on the basis of universal franchise. By jettisoning statutory apartheid and opting for a liberal, de-racialised capitalist solution, the government removed itself from an obvious line of defeat. The change granted the regime additional space to manoeuvre. While unbanning the ANC, the regime still aimed to control the transition and shape its outcome.

The advantages that flowed from this change of direction were almost immediately evident. De Klerk's stature improved and the government's international credibility, hitherto almost entirely monopolised by the ANC, tilted to the 'new Nats'. This soon translated into material gains as international credits were once more extended to South Africa. Moreover, just one year after February 1990, sanctions, the symbol of South Africa's international isolation, began to unravel (South African Reporter, 1991:9-16).

The timing of De Klerk's pronouncements and the speed with which they were implemented were important. They caught the ANC

largely unprepared and put the movement on the defensive, as it had to react to a distinctly new political landscape. The regime's ideological shift gave it desperately needed breathing space and allowed it to seize the all-important strategic initiative away from the ANC. The significance of the strategic initiative should not be underestimated and is best illustrated by the vociferous debates at that time on the question of the 'reversibility' or 'irreversibility' of the transition.

The point is that the ANC agreed to play by unwritten rules of transition at a point when it had lost the initiative ... [and this] is why it is not prepared to accept that the transition is irreversible. In other words, by refusing to accept that the transition is irreversible, the ANC is effectively admitting its own inability to seize the initiative The irreversibility debate is about power. For those who control the transition it is irreversible. For those who do not, it is reversible.

(Swilling in Sunday Star, 30 Jan 1991)

The initial phase of negotiations thus witnessed a "relative but crucial disempowerment of the ANC. This had a negative effect on the ANC's position in negotiations, and resulted in a relatively mild challenge to largely intact state power" (Booyesen, 1991:42).

The NP offensive had long-term objectives as well. Implicit in the strict legalistic interpretation of abolishing apartheid, without due regard to its socio-economic legacy, lay the NP's determination to hold on to political power and foreclose the possibility of radical socio-economic restructuring. As Steven Friedman (1990:7) argued, "The NP is not about to surrender: it will only settle for a new system in which it and its followers will retain enough influence to ensure that they can live with the new order".

The NP's constitutional proposals demonstrated the outcome it sought as patterns of power and privilege (and their distribution or redistribution) were clearly pivotal in their calculations. These factors are the keys to understanding the complexities of

the negotiation process and the government's objectives and tactics throughout (Adam and Moodley, 1989:376).

Pretoria is determined to ensure the preservation of white privilege and capitalism by restricting the future state's capacity to effect significant social and economic change. The envisaged institutional means of attaining this objective, as outlined by the Nationalist Party's constitutional proposals, are the protection of 'minority rights' in a new constitution, a substantial devolution of power to regional and local level, the entrenchment of devolved powers in a new constitution, and multi-party control over a new cabinet, upper house of parliament and 'executive council' which replaces the position of the state president.

(Nathan and Phillips, 1992:121).

While the government conceded the principle of a liberal-democratic order, the attempt to 'front-load' the constitution aimed to subvert the arithmetic of a national democratic election. With most polls (see Weekly Mail, 22-27 March 1991) suggesting that the ANC would win comfortably, the NP's strategy was understandable:

De Klerk recognises in advance that he is going to lose the election. So he wants to write the rules so that the losers remain in government ... at its most basic level, the deadlock is about the failure of the National Party to cross the democratic threshold.

(Van Niekerk in Weekly Mail, 16-22 Oct 1992)

The ANC propounded the establishment of a constituent assembly to frame a new constitution in the belief that this would ensure its democratic and legitimate content. The NP opposed such a process as it would ensure that "the principle of unqualified majority rule is conceded even before the constitution is written" (Rantete, 1992:5).

In a similar vein, the probity of the government's embrace of federalism was questionable. Without denying the utility of federalism in principle, Kader Asmal, the ANC's constitutional advisor, greeted the government's conference on federalism with some cynicism: "The sudden discovery of the virtues of federalism by the NP is an attempt to emasculate central

government of any competence and power" (Weekly Mail, 28 Aug-3 Sept 1992). Political analyst Phillip van Niekerk (Weekly Mail, 2-8 Oct 1992) echoed this concern:

Opponents of the government are deeply suspicious of the NP's embrace of a concept it so comprehensively scorned.... Having clung to exclusive centralised power for 44 years, it is highly suspicious that the NP underwent a sudden conversion to the virtues of a weaker central state on the eve of majority rule. The NP deepens suspicions by proposing minimal powers for central government that would amount to a loose confederation, and which would deny the central government even the right to draw up a budget - and hence to redistribute wealth.

The regime's strategies were also formative. As long as the NP based its support on the white constituency, its electoral marginality in a national election was assured. It therefore sought alliances with black 'moderate' groups which was simply an extension of earlier strategies pursued through tricameral, homeland and local government structures.

The NP strategy involved consolidating and extending a politically conservative alliance around its constitutional and economic proposals. As the identity of the players supporting the federalist option suggested, the proposals appealed to interests favoured or created in the apartheid era and whose political base in a national democratic election would be vitiated.

Thus, after opening up its membership to all racial groups, the NP actively campaigned in black communities in order to widen its electoral base. Apparently it was been more successful in wooing Indian and Coloured constituencies by reviving latent racial fears of an African-dominated government and by appealing to 'anti-Communist' and 'Christian culture' sentiments.

4.1.1 Political violence in the transition

Apart from these more acceptable political machinations, the

state engaged in sinister moves against the ANC. A large body of evidence accumulated during the transition, while uneven and sometimes unverifiable, incriminated state security forces in a brutal strategy aimed at undermining the ANC support base and paralysing its organisational coherence. In considering the violence inflicted by the security forces, vigilante armies and hit squads, the Human Rights Commission (HRC) asserted that

... the pattern of destabilisation, in terms of location, timing and methods, strongly indicate the existence of an orchestrated strategy, the origins and motivations for which must be sought inside South African government circles.

(in Collinge, 1992:20)

In the broad offensive against the ANC, the security forces employed conservative black factions, most notably Inkatha. Inkatha had been engaged in a 'low-intensity conflict' against the ANC-aligned United Democratic Front (UDF) since the mid-1980s. The struggle for the allegiance of black communities in Natal spread to the Transvaal when the ANC was unbanned and coincided with the latter's decision to establish branches in townships across the Reef.

The allegations of collusion between Inkatha and the security forces were substantiated in the evidence produced in the 'Inkathagate Scandals', in court cases such as the Trust Field Massacre trial, in the findings of the Harms and Goldstone Commissions and in the numerous court and media confessions of former security force and Inkatha members (Collinge, 1992:19-22).

Explanations and sources of violence in South Africa are complex and cannot be fully understood without reference to historical, socio-economic, ethnic and even psychological factors. In addition, the burgeoning litany of allegations and recriminations further obscured an already complicated matrix. However, the discernible patterns of state-sponsored violence demonstrated fundamental political intentions. Without ignoring the role of the ANC and its supporters, nor the role of an entrenched culture of political intolerance, the important question is who

benefitted from the violence?

If understood politically, the question - on the basis of overwhelming evidence - presumes the answer; the NP government and Inkatha. The overriding concern remains a political one... a destabilisation strategy aimed to hamstring and cripple political opposition.

(Marais, 1992:14)

The question of State President De Klerk's complicity in the violence was not, however, unproblematic nor a foregone conclusion. The answer involved unravelling De Klerk's mixed political agenda, the relative autonomy and nature of the security establishment, and the ambiguous, contradictory relationship which existed between the executive and security branches of the state (Nathan and Phillips, 1992:112-113).

As outlined earlier, De Klerk's orientation coupled a commitment to negotiations to effect a new political settlement with a desire to control its direction and outcome. In other words, De Klerk traded change in the *status quo* for control over that change. In pursuit of the first set of objectives, to which much of the government's credibility was linked, many important reforms were implemented. Proscribed organisations were unbanned, imprisoned leaders were released, and various security and legislative restrictions were eased to pave the way for freer and more open political activity.

In addition, the government reclaimed civilian control over the state, circumscribed the role and influence of the security establishment within the state and issued stricter guidelines over the behaviour of the security forces. Taken together, the reforms implied a significant liberalisation of the state apparatus and its policies (Nathan and Phillips, 1992:114-116).

Nevertheless, the desire to control the process of change in an environment where there were no established rules militated against pursuing such reforms too far or too quickly. The need for control also implied a role for the security forces as demonstrated by the regime's insistence on maintaining 'law and

order'. Moreover, the security establishment provided the government with a powerful support base and a 'fall-back' position if negotiations failed or produced unpalatable results. Moreover, even if the political will existed, it was not clear whether De Klerk's government possessed the capacity to curb the security establishment. The security establishment was not monolithic but contained diverse set of specialised military, intelligence and covert units which were neither uniform in their activities nor united in their political and ideological direction. Its long history of overt and covert repression against anti-apartheid forces weighed heavily on the negotiation process. Indeed, the instruments of coercion available to the South African state were among the most varied and diffuse in the world (Unfinished Business: Apartheid After Apartheid, 1990:25).

Support for De Klerk's reforms in the security establishment ranged from guarded support, more evident in the upper echelons of the command structures, to outright hostility amongst rank and file members. Grave misgivings towards the reforms co-existed with an implacable animosity towards the ANC alliance. The sheer size, power and diversity of the security establishment did not permit quick or easy control. As Williams (1992:12) argued,

Whatever realignments, restructuring and control are achieved at the top levels of the state, the real centres of political and institutional power may still remain in other, less visible branches of the state. We now have a situation where the dominant factions in the security establishment ... have developed a strong degree of autonomous power which they exercise via internal channels and networks. Confronting institutions as entrenched and diverse as these is daunting. Indeed the challenge of the present transition is not only to restructure the executive reaches of the state, but to also identify the core centres of power located elsewhere....

Sections of the state clearly did not want to see the emergence of a strong ANC. More extreme elements sought to undermine the entire negotiation process while others aimed to negotiate with a weakened ANC which could be forced into accepting a settlement on NP terms (Carrim, 1993:92).

Political violence during the transition made it difficult to normalise political processes and undermined the ANC's capacity to build a strong and stable democratic organisation (Weekly Mail, 26 Jul-1 Aug 1991). In particular, civil war conditions in Natal stifled the growth of the ANC in that region. Inkatha's mobilisation around ethnic identity became an increasingly difficult nettle for the ANC to grasp and one which may continue to bedevil the politics of KwaZulu-Natal.

4.1.2 The impact of the transition on the ANC alliance

Many potential supporters of the ANC were demoralised and demobilised as violence escalated in the Reef townships (Weekly Mail, 25-31 Oct 1991). The ANC's apparent inability to curb violence damaged its credibility and suggested its lack of influence over many sectors of the black population. As these problems persisted, the ANC's moral and emotional appeal was increasingly questioned (Carrim, 1993:96-97).

The ANC decision to suspend the armed struggle without consulting its rank and file fuelled disaffection among some supporters (Mayibuye, Oct 1991). The negotiation process appeared to drive a wedge between the leadership and its grassroots support, and accusations of leadership co-option - even 'sellout' - became more vocal. ANC concessions in the negotiations were seen as evidence that the leadership was becoming increasingly moderate and unduly conciliatory.

Problems were also encountered as ANC members emerged from exile and underground to engage in more open forms of popular mobilisation. In this regard, a degree of unevenness in the form and level of the alliance's organisational structure became apparent. There were differences in the level of consciousness within the ANC membership and amongst recruits from the MDM. As personnel of the MDM were drawn into the ANC, differences in the organisational structure, and the immediate aims and context of operations, created new problems and complicated attempts to

wield organisational cohesion (Lodge, 1992:51).

Meanwhile, the ANC had to respond to the challenge of reconciling three generations of leadership: elderly veterans from Robben island, returning exiles and the architects of the 1980s internal struggle in the United Democratic Front (UDF) and the broader Mass Democratic Movement (MDM). Indeed, the revival of mass organisations in the 1980s spurred rival claimants to key positions of power in the liberation movement (Lodge, 1992:44).

The perception of division and internal wrangling was underlined by the leadership's tendency to view talks with the government as the main terrain of struggle while relegating grassroots issues. In short, negotiations appeared to distance the ANC from its popular base (Umsebenzi, Oct 1990).

At times, it appeared that the ANC was acting unilaterally by not consulting its alliance partners on key political issues under negotiation with the government and other political parties (SouthScan, 8:32, 1993). COSATU was particularly vocal in opposing any tendency in the ANC to treat it as a junior partner in the alliance.

The ANC also faced accusations of autocratic tendencies; a possible consequence of the hierarchical, bureaucratic and militaristic structures which had been necessary during the long years of exile under war conditions. This contrasted sharply with the long traditions of democratic practice and mandate amongst trade unions and civic organisations (Lodge, 1992:56). 'Commandism' encountered stiff resistance from the rank and file of the alliance members (Weekly Mail, 13-19 Sept 1991). Despite different leadership styles, democratic tendencies remained ascendant in the alliance and institutional checks were established to foster its practice (Lodge, 1992:59).

Although the ANC espoused a range of political, economic and social principles and demands, it did not have a clear and

coherent set of policies. This lacunae sometimes led to conflicting statements and views in specific policy areas. At times, the ANC representatives contradicted the policy positions of its alliance members (Carrim, 1993:108).

The lack of clarity on policies was partly related to real contradictions within the ANC and between it and its allies. The basic tension revolved around the ANC as a broad anti-apartheid movement of national liberation and the need to transform itself into political party in a conventional sense; that is, a political party seeking a constituency on the basis of a specific set of policies (Carrim, 1993:109). This confusion, at times, also undermined confidence in the ANC.

Conflicting statements by members of the alliance suggested not only confusion amongst those without area specialisation, but also competition between different sections of the movement (Lodge, 1992:71). Indeed, as concrete policies emerge, divisions within the movement may be thrown into sharper focus. In short, unity in the ANC alliance cannot be taken for granted.

4.1.3 The shifting strategic initiative; the ANC responds

The balance of forces during the transition remained fluid, but gradually began to shift in the ANC's favour. Despite internal problems and external constraints and pressures, the ANC regained the strategic initiative and began to respond more effectively to the difficulties it encountered. Given the problems associated with establishing a democratic organisation in the context of widespread violence, confronting a rearguard offensive from the state and its allies, formulating policy positions on a range of issues which were previously granted little attention, the ANC reacted remarkably well.

Several events reinforced this trend. The 'Inkathagate' scandal and the Boipatong and Bisho massacres undermined the opposition's credibility and weakened the NP's international legitimacy. The

government was further shaken by revelations of unprecedented corruption and the inability to control its security forces. State President De Klerk appeared to be losing the confidence invested in him by the public and the international community. His cabinet was deeply divided over negotiations and he was seen to be leading an increasingly corrupt and crumbling administration (Van Niekerk in Weekly Mail, 18-24 June 1993).

In contrast stood Nelson Mandela's statesman-like approach and the ANC's growing self-confidence, clarity and willingness to compromise in order to keep the democratic transition moving forward. This was clearly demonstrated by the 'sunset clause' proposals offered to government as a compromise at the end of 1992. Its main objective was to set a date for an interim government which would prepare the way for free elections. In effect, it overcame the drawn out political impasse.

The ANC agreement to five years of coalition rule represented a strategic retreat from immediate and unqualified majority rule. It accepted that demands for majority rule had to be modified by guarantees for the white minority. It was also an admission that the white-dominated civil service and security forces had the capacity to undermine the new government and, therefore, needed to be assuaged.

The compromise was premised on the view that the longer the stalemate continued, the weaker the major actors would become and support would shift to more extreme political rivals on the left and right. This would erode the possibility for a peaceful democratic transition. Underlying this, the more ungovernable South Africa became, the more the economy would deteriorate. Taken together, the impasse was a recipe for catastrophe (Uys in Guardian Weekly, 4-10 December 1992).

More positively, the compromise was a recognition that even after the adoption of a new constitution, a smooth transition was in the interests of the entire country. It was becoming more

apparent that this would best be served by establishing a government of national unity so long as the parties that lost the elections would not be able to paralyse the functioning of government. Rather than demand majority rule as the climax of negotiations, the ANC sought to protect the integrity and legitimacy of the democratic state that would emerge under its leadership.

Thus, the transitional constitution was rooted in the real situation the ANC would face after elections. The new government would inherit a country with a history of divisive conflict. By itself, the ANC would be unable to secure immediate and full control over the levers of state power. A government of national unity was seen to be better suited to facilitate the process, establish the basis for fuller democracy, ease potential conflict and draw in all relevant political parties and players.

The NP government had conflicting objectives. It hoped to entrench power sharing in the new constitution, reduce the executive powers of the state president and bind the constituent assembly to clearly defined principles. In particular, these sought to ensure proportional representation with a devolution of power to regions; a variant of the federalist option (SAPEM, August 1993:19). The NP also aimed to establish an 'inner cabinet' with executive powers shared by the major parties and with leadership provided on a rotating basis. Decisions would have to be taken by consensus basis which implied minority veto power (Louw in Weekly Mail, 11-17 June 1993).

What obtained ultimately was a trade-off between democracy for interim shared rule with the NP dropping its insistence on permanent power sharing. Both the NP and the ANC agreed to a government of national unity for five years to ensure stability and ease the transition. The government's concession to drop permanent power sharing was, in effect, an acceptance of the sunset clauses as proposed by the ANC.

The NP objectives of entrenching strong regional government and principles which would bind the constituent assembly were met. Nevertheless, by accepting the establishment of the Transitional Executive Council (TEC) to steer the country to its first one-person, one-vote election, the NP was admitting the inevitable: the ANC was on its way to securing political power. Despite severe problems and constraints, on balance the ANC had remained coherent, united and on course.

4.2 The economics of stagnation

South Africa's transition cannot be fully understood without reference to its deteriorating economic performance. Economic decline during the transition was a nagging reminder to leaders of the need to resolve the political impasse as the necessary prerequisite to tackling the enormous socio-economic problems facing the country. Booyesen (1990:47-48) puts the issue in perspective:

... the most devastating factor in the South African ... crisis has been the effect of voluntary flight of capital from South Africa. Together with the wide range of sanctions (which often had a fairly limited impact), the South African economy was rendered isolated, had difficulties in repaying its debt, was continuously unable to create investor confidence, and fell far short of the required growth rates.

There are several ways to understand South Africa's economic crisis. One way is to outline the decline in conventional economic indicators, explain the social implications and identify its fundamental causes.

Inequality and mass poverty are perhaps the most striking feature of South African society. Affluence in the white community stands in stark contrast to the widespread and absolute poverty amongst urban and rural black communities. It is estimated that about 17.5 million people, around half the population, live in households with incomes below the minimum living levels. Recent trends suggest that this figure is rising (Ramphela and Francis,

1989:14-26).

The broader question linked to poverty is the scale and range of inequalities. Available estimates suggest that South Africa is one of the most unequal societies in the world. Amongst countries for which appropriate data is available, South Africa had the highest index (Gini coefficient) of inequality in terms of income distribution. The average income of white South Africans - 15 percent of the total population - is approximately ten times that of the black population who account for 73 percent of the total population, while the top 20 percent of the population own 75 percent of the wealth (McGrath, 1990:96-97).

The distribution of wealth is more unequal if assets such as land, industrial, commercial property, other real estate, stocks and shares are included in the equation. Around 80 percent of the stocks listed on the Johannesburg Stock Exchange (JSE) belong to just four of the largest conglomerates which themselves are controlled by a relatively small number of white males. Before the repeal in 1991 of the laws which limited land ownership by blacks, about 87 percent of the land was designated for whites (Rakotondrainibe, 1993:4).

The disparities in access to public services is alarmingly high in a country where most whites live in first world conditions. Disparities in respect to access to basic social services such as housing, health, education and training, electricity, water and sewerage are glaring. For example, while most whites have access to electricity and telephone services, electricity is available to only 20 percent of black households and telephones to only 9 percent of Africans.

In the strongest economic region in Africa - located around Johannesburg-Pretoria industrial heartland - 70 percent of African households have no direct access to water and 50 percent live in structures built with impermanent materials. While schooling is compulsory for all white children, 25 percent of

African children do not attend school and illiteracy amongst Africans is estimated to be over 45 percent (Ismail,1993a:1).

Since the mid-1970s, growth rates in South Africa have fallen, unemployment has soared and the country witnessed severe declines in both Gross Domestic Product (GDP) and Gross Fixed Investment (GFI). This downward trend worsened in the 1980s. While GDP declined on average 1.7 percent between 1980 and 1989, and GFI was negative for the same period (Mboweni,1992:201). Declines in corporate investment signalled the extent to which business confidence had evaporated. Fixed investment in capital equipment, plant, machinery, buildings and construction plummeted to a negative growth rate of (-)1.7 percent (McMenamin,1992:247).

Unemployment has been estimated at 40 percent of the economically active population or approximately five million people (Mboweni, 1992:202). In short, the growth path of the South African economy which was based for forty years on import substitution industrialisation, had become untenable. Between 1983 and 1989 the economy grew by an average of only 1.4 percent per annum. This was less than the growth of the population, signalling that average income per person has been falling (McMenamin,1992:247).

The crises associated with massive unemployment, persistently high inflation and a depreciating rand preceded the sanction and disinvestment campaigns and has its roots in the structure of the economy (Cassim,1988:3). Problems in the manufacturing sector are central to understanding the parlous nature of the economy. Manufacturing has been the major contributor to output and employment and, over the post war period, it was the main stimulus for economic growth (Black,1991:157).

Industrialisation is, moreover, the *sine qua non* for economic development. In South Africa, the small domestic market, itself a result of the country's highly skewed (racially-based) income distribution and structure, has constrained the development of industry. Meanwhile, the manufacturing sector which developed

behind high protective tariff barriers, has been unable to enter global markets and generate significant export growth. South Africa's high industrial cost structure and inefficiency - a result of a peculiar form of import substitution industrialisation ('racial Fordism') - have undermined its competitiveness globally. Also, the high capital intensity of South African industry has limited its employment creation potential (Black,1991:163).

At the same time, the absence of a dynamic capital goods sector has ensured that local industries remain critically dependent on imports of machinery and equipment used in production and transportation. Any expansion of the domestic economy thus requires capital good imports. The capacity for such imports faces, in turn, foreign exchange and balance of payment constraints (Kaplan,1991:173). These constraints arise when the current account runs up a deficit (the value imports greater than exports) which have to be financed on the capital account either through foreign loans or foreign direct investment.

The slow rate of growth of South Africa's capital goods sector has had a negative impact on the nation's balance of payment account, on the development of skills and on the generation of more productive technologies (Kaplan,1991:174). The lack of an active state policy to address these and encourage local technological development has underscored dependence on foreign technology and capital goods. The extent of dependence is illustrated by the fact that 84 percent of new technology is embodied in imported machinery (Black,1991:161).

The weak export performance of the manufacturing sector has reinforced South Africa's reliance on its primary sector for foreign exchange. Weaknesses in the manufacturing sector has threatened a situation where South Africa may be 'forced back' to primary production (Black,1991:157).

The reassertion of primary exports as the dynamic sector of an increasingly open economy may even be

welcomed by free marketeers, especially if it comes, about as a result of the growing influence of 'market forces' in determining the direction of economy. But such views fail to take account of industrialisation's dynamic, transformative characteristics, and even a relative reversion to dependence on primary production for export should in fact be seen as a highly retrogressive and disturbing development - symptomatic of economic decay rather than growth and renewal.

(Black, 1991:174)

In short, South Africa has been unable to transform the nature of its insertion into the world economy as an exporter of primary products (minerals) and an importer of capital. Periods where the price of gold appreciated simply disguised the underlying decline in the economy's international competitiveness (Kahn, 1991:62). The overall instability of South Africa's balance of payments and the economy's dependence on gold has made it vulnerable to external shocks. Such problems were heightened when domestic political factors (violence and repression) constrained inflows of investment and loans.

While growing dependence on primary product exports has meant increased vulnerability to unstable commodity prices, slower rates of growth in industry undermined prospects for employment generation. The lack of investment in export-based manufacturing is also due to the balance of payment constraint. While the demise of the Bretton Woods system of fixed exchange rates in 1971 was a boost to mining and the economy in general, the volatile nature of the gold price ensured that the economy and the balance of payments had to adjust to unpredictable and sometimes sharp swings in the gold price (Kahn, 1991:61).

Usually, an upswing in the business cycle lead to increased imports which had to be paid for by current account surpluses generated from gold earnings or from inflows of capital on the capital account. In the context of financial sanctions and disinvestment, current account surpluses were achieved mainly through gold exports (Kahn, 1991:64).

The 1985 debt crisis exposed these structural problems in the

economy and the close link between economic and political factors in South Africa (Harris,1989:172). In general, international bankers are uninterested in political reform for its own sake. Rather, they seek to protect their assets and the mechanisms of the international financial system. Pretoria's intransigence, as revealed in State President P.W. Botha's 1985 so-called Rubicon speech, indicated that the political will to address the political roots of instability was simply non-existent.

Against this background, the deterioration of the South African economy, its distorted debt structure ('bunching up' of short term debt) and increased political instability led to a reassessment of the political risk of lending to South Africa. The refusal to roll over loans or issue new loans placed intense pressure on South Africa's fragile balance of payment accounts.

The ability to borrow permits countries to avoid addressing foreign account deficits immediately. Given its commitment to repay previous loans, so long as South Africa was refused access to global financial markets, the capital account was likely to remain in deficit. This meant that debt repayment had to be financed by surpluses on the current account (Kahn,1991:86). Surpluses could be achieved either through increasing exports or decreasing imports. The former was problematic because, as noted, the manufacturing export sector remained uncompetitive while exports of primary products faced problems of volatility and capacity constraint.

The debt crisis highlighted how critical access to foreign capital is to the South African economy. High interest rates and low levels of investment were required to ensure a current account surplus so as to repay debts. Current levels of unemployment and the success for any redistributive strategies depend on high growth. Yet, current account surpluses require low levels of investment which sabotage growth prospects (MERG Report,1993:66). In sum, South Africa found itself in a classic and unenviable catch-22 position.

The business community and the previous government's efforts to redress the economic crisis have been labelled the 'neo-liberal export-oriented strategy' (Gelb,1990:7). Politically, the aim was to transform the NP to represent the interests of big business. Morris (1992:57) has outlined the strategy.

The basic terms of this model is political settlement and growth. It proposes to solve the economic crisis by focusing on the issues of growth rather than those of redistribution. It specifically eschews radical state intervention to redistribute social and economic resources on a non-economic basis.... [It involves] maximum accommodation to demands for majority rule but with a minimum of accommodation to demands for major restructuring of the economic and social fabric of the society.

The strategy focused on restructuring and regenerating the manufacturing sector by using market-based policies to achieve two goals: reducing the cost structures to restore profitability of production and expanding markets for industry by encouraging exports (Gelb,1990:7). It aimed to spur economic growth and reflected the global trend towards liberalisation, deregulation and privatisation. Thus, it involved limiting the role of state activity in the market to simply defining the broad parameters of market processes.

According to this strategy, the autonomous responses of economic agents to changes in market price signals would produce the desired transformation in terms of profitability and the structure of production. Elements of the strategy included introducing an export subsidy in the form of the General Export Incentive Scheme (GEIS), overhauling the tariff structure and deregulating the financial sector (Gelb,1990:8).

The GEIS proved to be inefficient, flawed and is now due to be scrapped and deregulation in the financial sector led to further concentration of power in the South African economy. Although one aim of the strategy was to make exports more competitive with particular emphasis being placed on the beneficiation of minerals, the strategy implied that economic growth would be

attained along the same capital intensive, raw material-based path. As such, the strategy had negative implications for employment generation.

The immediate intention of the strategy was to meet the needs of business, some sectors of the white population, the black middle classes and workers employed in the manufacturing sector. As such, it represented the 'fifty percent' solution which would effectively drive a wedge between the employed and the unemployed. Redistribution in the strategy would be separated from economic growth and would focus on groups not accommodated via fiscal transfers. Since income inequalities would widen, the neo-liberal approach would tend to reinforce the dualistic structure of society. Gelb (1990:9) argued,

Some groups would be incorporated within the 'compromise' on which the strategy would be based, while a large sector of the urban and rural poor would be excluded, obtaining benefit from secondary redistributive mechanisms, and hence on a more limited scale and over a more drawn-out time period. This consideration raises critical considerations in respect to the prospects for political stability. Black organisations would be the vehicle to 'domesticate' their constituencies.

With the low level of confidence, however, there was little basis for believing that business would respond positively. Given the continued political uncertainty of the transition, the difficulty the NP had in shaking off doubts of its legitimacy and the fact that it was a party moving away from the centre of the political stage, it was not surprising that domestic and international capital adopted a 'wait and see' attitude to future economic prospects.

The lifespan of the NP's neo-liberal strategy was short and it failed to have any significant impact on growth, let alone poverty and inequality which, indeed, was not its objective. The basic flaws the strategy were i) unilateral action on the part of a discredited government; ii) macroeconomic mismanagement along with a history of massive corruption; iii) no employment

generation programme; and iv) a thinly- disguised attempt to change the rules of the game at a time when the majority of the population had potential access to political institutions (MERG Report, 1993:5-6).

Moreover, policy responses were implemented in an *ad hoc* manner which left the essential structural problems of the economy unresolved. In sum, the old regime did not provide a coherent or comprehensive framework which could tackle the deep and wide ranging problems facing South Africa.

4.2.1 The evolution of ANC economic policy

As many of the ANC alliance's conceptions are rooted in the somewhat ambiguous tenets of the Freedom Charter (see Davies, 1988; Fine and Davis, 1991), for many years confusion arose as to the precise nature of ANC economic policy. Moreover, the imperatives of challenging the apartheid regime relegated the formulation of a detailed economic policy within the ANC. Harris (1990:25-26) summarised other reasons for this relative neglect:

... at the end of the 1980s, the ANC did not have a thoroughly worked out and agreed to post-apartheid economic strategy ... the political and diplomatic demands of leading an exile movement, the lack of access to data or to the details of economic management, lack of adequate literature and facilities, the absorption of skilled people by administrative and personnel needs have been acute.

Although some efforts to redress this shortcoming were under way in the 1980s, logistical and organisational impediments persisted well into the transition. During 1990-91, the Canadian-based International Development Research Centre (IDRC) undertook an intensive mission to South Africa to assess the capacity and needs of the ANC in regard to economic analysis and policy formulation. The conclusions recorded in the Mission Report highlighted severe organisational obstacles to ANC economic policy formulation capacity.

The IDRC reported the dearth of capacity to support the leadership in devising coherent and viable perspectives. This was linked to, *inter alia*, the lack of clear organisational structures and skilled personnel with the relevant experience necessary for effective policy advice to the leadership. Also, the results of existing and ongoing research was often lost because there was no body to co-ordinate and synthesise the findings for policy use at the national level (IDRC,1991:5).

In addition, specific constraints within the ANC Department of Economic Planning (DEP) were identified. Whereas the DEP should have been operating as part of a shadow government, understaffing meant that its functions vastly exceeded its capacity. Perhaps the Report's most disturbing conclusion was that the movement had not, at that point, "demonstrated grasp of the need to grant primary attention to economic policy formulation and capacity building in this area" (original emphasis; IDRC,1991:15).

The reason for the hiatus, as indicated earlier, lay in the centrality of the conjunctural political exigencies. Those imperatives conspired relentlessly to undermine the ANC alliance's intention and capacity to grant due attention to economic policy formulation. Primary attention continued to be determined by political and ideological struggles against the state, the NP and its allies.

As the transition unfolded, however, the ANC began to respond more effectively. As Tito Mboweni (1992:210), then of the ANC's DEP, argued, "discussion on economic issues in the ANC and the mass democratic movement is coming of age. We are moving more and more towards grappling with the finer details of policies for transformation of the economy".

Formulating ANC economic policy was complicated. It involved bringing together constitutional structures, the various policy departments as well as the views of the alliance. It required absorbing the experiences of other developing countries,

addressing the lobbying efforts of domestic capital, the media, western governments and advisors from the IMF and World Bank (Mboweni, 1994:69). ANC policy was - and is - made at its National Conferences (convened every three years) and, between these conferences, the National Executive Committee (NEC) and the National Working Committee (NWC) - the ANC's 'cabinet'. Only policies endorsed by these bodies can be considered ANC policy. The ANC's policy departments, including the DEP, only make policy recommendations which, of course, carry weight with the constitutional structures.

To strengthen its capacity for policy development, the DEP linked up to a number of research bodies which assisted in fashioning policy recommendations. These included, amongst others, the Economics Trends Group, Macroeconomic Research Group (MERG) and the Industrial Strategy Project (ISP). A variety of research centres fed their work into the DEP which coordinated and arranged it into policy frameworks for ANC decision-makers.

Cosatu played a leading role developing the alliance's economic policy. Over the years, Cosatu had developed a keen sense of the strengths and weaknesses of the economy in its negotiations with business leaders. It had already begun to participate in the restructuring of industry via the industrial council structures, sector Task Groups and the National Economic Forum.

The evolution of ANC economic policy is contained in a number of documents: the discussion document on economic policy in September 1990, the draft manifesto on ANC economic policy in May 1991, policy guidelines for a democratic South Africa in May 1992 and its back up document. A comprehensive ANC-sponsored study for economic policy emerged from Macro Economic Research Group (MERG) at the end of 1993. MERG itself was an outcome of the process begun by the IDRC Report noted earlier. The MERG study crystallised the research from many analysts sympathetic to democratic movement and provided the outlines of the framework within which subsequent ANC policy was formulated.

All these strands were drawn together in the Reconstruction and Development Programme (RDP) which became, in effect, the ANC alliance's economic policy and strategy in the run up to the April 1994 elections. The RDP represented an unprecedented vision and plan to address the economic stagnation and social imbalances of South Africa.

While details have yet to be determined, the RDP's importance lies in that it has shaped the debate on economic policy and provided a definitive framework for economic policy planning. The RDP became one of the most potent instruments of the ANC fostering a national consensus and vision on broadly defined socio-economic development (RDP,1994:i-ii). It is seen as an instrument for transforming both government and society.

The manner in which the RDP was formulated ensured its legitimacy. It emerged from the demands made by ordinary people in the ANC's so-called 'People's Forum' held throughout 1993. The final plan embodies inputs from academia, business, various state departments and parastatals, trade unions and other organisations of civil society. It was developed through no less than six drafts. In short, it is a democratic programme which enjoys the support of the majority of South African stakeholders; this is critical if it is to be successfully implemented.

The RDP has clearly defined objectives and specific, concrete measures to achieve them. Its opening lines read:

The RDP is an integrated, coherent socio-economic policy framework. It seeks to mobilise all our people and country's resources in the final eradication of apartheid and the building of our future.

(RDP,1993:1)

The following key challenges are addressed in the RDP (1994:2):

- * To shift expenditure patterns to new priorities that meet the RDP goals at national, provincial and local levels of government;
- * New inter-governmental fiscal relations to improve transparency and accountability;

- * To restructure and transform state and parastatal institutions to deliver the RDP;
- * To restructure the civil service for optimal utilisation of human resources;
- * To reduce public debt and contain government consumption through fiscal discipline;
- * To invest in people through education and skills development;
- * To foster a partnership between government, business, trade unions and civil society;
- * To foster law and order and the creation of an environment for investment;
- * To usher in democratic local government which will deliver the RDP;
- * To transforming society in a manner whereby people take responsibility for their own development.

Its key programmes involve meeting basic needs; developing human resources; building the economy and; democratising the state and society (RDP,1993:3-6). It is essentially a framework for setting in motion a sustainable and dynamic process of growth and development based on redistribution and restructuring the economy. It is an integrated, people-driven programme that seeks to build the nation by linking reconstruction and development with deepening democracy (RDP,1993:3).

The RDP has established guidelines affecting industry and trade; the restructuring of institutions necessary to implement the programmes; investment in infrastructure (health, water and sanitation, energy and electrification); affirmative action; reforms in land and agriculture; jobs through public works; human resource development through massive expansion and quality improvement of the education and training systems; reforming the financial sector; technology policy; communications and transport, etc.

Although the implementation of the programme will be an expensive proposition, expenditure on the RDP will largely be secured by

re-organising and rationalising existing systems to unlock resources (RDP,1993:5). In addition, local and international grant aid, user fees for services rendered and the sale of state assets will help bolster the RDP fund. In short, it will be financed without increasing government borrowing beyond current levels relative to GDP (Weekly Mail, 3-9 June 1994).

The ANC economic policy represented a departure from all previous government and business proposals in that it was a coherent and holistic approach to addressing the country's wide-ranging socio-economic problems. It emphasised the need to achieve both growth and redistribution in order to underpin the political settlement. It recognised that political stability would only be sustainable if the needs of the poorest and most oppressed sectors of the population are seriously addressed.

The use of the state budget to transfer income from the rich to the poor through progressive taxation and the redirection of state expenditure are seen to be important mechanisms for redistribution. While it is recognised that expanding the state budget much beyond current levels would be untenable, it argued that there is substantial scope to ensure greater efficiency in expenditure practices and improve the effect of the budget by redirecting it to the poor (MERG,1993:12).

Reducing economic inequalities has always been central to ANC policy. This implied a commitment to overcoming the legacy of decades of racial discrimination by meeting the basic needs of all South Africans. While these objectives have remained unchanged, strategies to achieve them have shifted (McMenamin, 1992:245).

Such changes were implicit as the ANC increasingly began to argue that the state sector might be expanded in some cases and reduced in others, depending upon democratically agreed objectives, not dogma (Financial Mail, 28 May 1993). Important decisions would have to involve negotiations with business and labour. Since

economic collapse would undermine popular support, "the criterion for the adoption of any policy option should be its effectiveness and efficiency in achieving the goals of national economic policy" (ANC 1990 Discussion Document).

MERG developed much of the research which informed the RDP. To achieve the goals of economic growth and redistribution, MERG stressed that while state structures should play an active role in leading development, its institutions should be economical and efficient. It thus advocated a strong but slim state, in line with the strategies pursued by the successful Asian countries (MERG, 1993:291).

Implementing sustainable policies has become the critical consideration for ANC policy-makers. It is now widely accepted that there would be few advantages to redistribution if it is implemented at the cost of falling growth rates. Indeed, international leaders across the world made it clear to the ANC that nationalisation was a strategy that the ANC could ill-afford to pursue in the current international environment. Achieving a balance between growth and redistribution is therefore a fundamental challenge facing ANC economic strategies (McMenamin, 1992:249).

Reflecting the view that revitalising the economy requires a measure of state intervention, there has been a considerable sophistication of the ANC position on this issue. The essence of the position is contained in the Draft Manifesto of May 1992:

The fundamental framework of our economic policy is that of a mixed economy based on the principles of democracy, participation and development. We are convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems facing us.

The ANC recognised the problems of highly centralist state planning and acknowledged the need for the market to play an important role in the process of production and distribution. A dynamic private sector, geared to meeting the needs of a

democratic South Africa, is seen to be crucial in providing good quality and competitively priced goods and services.

The 1992 economic policy document outlined a flexible position on the role of the state. It sees the key issue as being how the state responds to needs, equity and growth, rather than the terms of ownership. Rather than counterposing crude choices between the free-market and state planning,

... both the market and plan are understood as institutional processes, enabling and constraining economic agents.... Of far more interest are dynamic questions such as the interaction over time between institutional change and changes in the behaviour of economic agents. In other words, while all economies are seen to be 'mixed'... the policy problem is not to find the optimal mix between the two, but to manage their interaction over time, so as to achieve dynamic, rather than static, efficiency. This demands the continuous planning and transforming the market environment within which firms operate, with the objective of steering the activities of firms in line with wider social and developmental objectives.

(Gelb, 1990:13)

Through appropriate, selective and targeted intervention in the market, the state may encourage investment and growth. While land reform and agricultural restructuring may provide impetus for economic revival in this sector, policies would not be implemented unilaterally. Broad participation in economic decisions is seen as essential to ensure democratisation of the economy. It could be achieved by drawing in civil society together with the state in overall economic coordination and planning.

The discussion on state intervention in the ANC is therefore over its nature not its centrality. State intervention would be targeted and selective (Gelb, 1990:12-13). To achieve these objectives the state structures will need to be changed. The machinery of government, in addition to being democratic, with strong mechanisms of accountability and transparency, should be re-designed to serve the purposes of the developmental state and the parastatals would be restructured to improve their efficiency

and avoid draining state funds (MERC, 1993:17).

Such participation would be facilitated through greater transparency and accountability in i) fiscal management; ii) greater involvement of workers and their representatives in corporate decisions through, for example, guarantees which allow workers to strike; iii) increasing transparency in the private sector operations; and iv) providing a legal institutional framework that encourages the private sector to negotiate around industrial restructuring (McMenamin, 1992:252).

Sustainable policies will need to be built on participation and incorporation as unilateral state action would run the risk of alienating different groups in society. Disaffected groups could pose serious obstacles in implementing policies. Thus, to ensure that policies are just and legitimate requires an economic framework in which all the important economic agents feel they have a stake.

This will ensure the popular support we require for stable and effective economic policy, we must open up the decision-making processes in both the public and private sector.

(ANC Economic Policy May 1992)

Legitimate and high expectations of the ANC's constituency are seen to be better managed by involving ordinary people in socio-economic decision-making through the organs of civil society. Transparency and consultation on policy would ensure that the possibilities and problems in the economy are broadly understood and recognised (McMenamin, 1992:252).

To take another area of contestation, a viable industrial strategy would not be drawn up by state bureaucrats but would emerge through a process in which all the major parties and economic actors contribute to identifying South Africa's weaknesses on a sector-by-sector basis. Steps to correct these could then be formulated. Nevertheless, without effective and focused support from the state, industry is unlikely to make the

jump required to attain and sustain a level of global competitiveness necessary for South Africa's social, political and economic progress.

The emphasis on growth in ANC economic policy is a recognition that a growing economy is necessary to raise income levels, create jobs and overcome poverty and deprivation. At the same time, growth will not in itself provide solutions to the social problems faced by the mass of the people. Growth will need to be driven by meeting the needs of the majority through a concurrent policy of inward industrialisation based on the production of goods and services to meet the basic needs of the poor (McMenamin, 1992:250). The broad objectives of this strategy is to create employment and produce basic consumer goods.

In other words, rather than separating redistribution and economic growth, the aim would be to achieve growth through redistribution. Redistribution is not premised entirely on income transfers, but on redirecting investment towards productive activity in labour intensive industries and infrastructure. It also requires restructuring key areas in the economy to ensure that the accumulation strategy locates redistribution as an essential component of the growth process rather than an adjunct to it (Erwin, 1992:17).

The ANC also seeks to develop global competitiveness in certain sectors of industry. The debate over the relative costs and benefits of inward industrialisation versus outward free-market growth strategies is myopic; in fact, both strategies are necessary. The development of the manufacturing sector and exports is critical to sustained economic revival. This requires a mix of policies which taken together comprise a comprehensive industrial strategy.

The key feature of the global economy in the current conjuncture is that successful competition is not determined by low prices, but by producing high quality, innovative and differentiated

products (Ismail,1993a:18). The 'new competition' suggests that success depends more on an endowment of widely spread skills and high productivity rather than on cheap labour (Ismail,1993a:21).

In order to achieve these competitive attributes, producers are required to be increasingly flexible, both with respect to their output structures and the use of their inputs. Although a number of factors contribute to this flexibility, organisational components play a prominent role. This organisational restructuring involves different types of inter-firm linkages, new types of relationships between design, marketing and production specialities within firms, and flatter corporate hierarchies that permit the introduction of new forms of work-organisation....
(Joffe et al,1994:17)

Concomitantly, part of an effective industrial revival strategy lies in formulating new social relations and institutions which foster cooperation and efficiency. Thus, the core of the policy is to change the relations between key forces in the economy at the shop floor, inter-firm, regional and national levels. This lends support to the tripartite structures between state, labour and business at national, regional and local levels which have already begun to formulate strategic sectoral programmes (Ismail, 1993a:24).

The industrial strategy proposed by the ISP and MERG research teams involved measures to ensure that production 'moves up the value-added chain'. This will require programmes to re-train and empower workers with more sophisticated skills, diffuse technology and create the institutional fabric to upgrade key industrial capabilities (Joffe et al,1994:19). In the capital goods sector, the expansion of local technological (especially design) capabilities which would raise local content and promote exports is crucial (Kaplan,1991:196).

The ANC recognises that the state would need assistance in developing technological capacity as a prerequisite for export growth. It aims to encourage development of local technology, strengthen links between state bodies and universities, science and research bodies etc. It would participate in and encourage

industrial (re-)training, inter-firm education, adult education and upgrading the educational system to effect broadly-based human resource development (MERG, 1993:16).

The ANC programme contains other important elements. The trade regime would have to be restructured and rationalised in order to i) reduce the level of tariff dispersion which makes the tariff system overly complex; ii) protect the industrial sector; and iii) remove the bias against exports (Joffe *et al*, 1994:20).

The price of re-integration into the world economy is the pressure to liberalise the economy in accordance with current international trends. However, the ANC proposes a differentiated approach to trade barriers. In other words, trade liberalisation needs to be tempered by selectivity and circumspection both in pursuing dynamic comparative advantage and ensuring a socially sustainable retreat from declining subsectors (Ismail, 1993a:20).

A controversial feature of South Africa's economy is its excessive concentration of ownership. The advantages of conglomeration are that it facilitates the spread of scarce managerial resources, achieves economies of scale in a relatively small market and permits investment in difficult areas. Indeed, in some circumstances the aggregation of economic power could promote the rapid growth of industrial capabilities. In this regard Tito Mboweni conceded that "big companies may be needed to conquer world markets" (in Financial Mail, 28 May 1993).

To date, however, there is little evidence of this among South African corporations. The consequences of conglomeration in South Africa have been inefficiency, stagnation and inequality (Lewis, 1991:30). There is also evidence that the major conglomerates promote price collusion as well as limit development of small and microeconomic enterprises (SMEs). Conglomeration reflects the aggregation of unrelated subsidiaries (with no horizontal or vertical integration) and pyramid control of subsidiaries; that is, an excessive concentration of decision-

making power.

The roots of inefficiency are not necessarily the size of the conglomerates but the fact that they constrain the autonomy of subsidiaries. This leads to a situation where investment decisions are based on earnings (dividends for shareholders) not the requirements of the industry. To address this, the ANC has advocated unbundling the conglomerates and improving competition via stricter anti-trust laws.

The function of policy should not be aimed primarily at market structure in itself, but at market performance. Enhanced competition and more productive forms of competition - these two policy objectives are not contradictory - may be achieved by either breaking up the conglomerates or by forcing them into a different pattern of behaviour.... One way is to strengthen competitions policy.... [and] another way of promoting better market performance is through policies designed to affect corporate ownership and governance.

(Joffe *et al*, 1994:21)

While the conglomerate nature of ownership in the South African economy is partially responsible for lack of development of the small scale manufacturing sector, it is lack of skills, access to finance and markets and regulations that are the major barriers to entry. To overcome these impediments, a policies mix which provide incentives, build capabilities and institutions to develop industrial competitiveness are required. Since SMEs can be a source of powerful dynamism in the economy with a huge potential to provide employment, the state would target their financial and technological needs as a matter of priority (Ismail, 1993a:22).

Proposals regarding fiscal policy suggest that the ANC would increase expenditures in infrastructure investment and human resource development, but not consumption or low productivity employment in the public sector. The ANC would not increase taxes but restructure system so as to remove features which discriminate against women and low income tax payers. While it would maintain macroeconomic balance and leave some room for

increased borrowing, liberalisation of the capital markets, is not envisaged in the short term.

The banking and financial sector in the South African economy have been a powerful component of the conglomerate structure, but they have not lead to increased productive investment despite financial deregulation. To redirect financial flows away from speculative investments to productive investments, the MERG proposed measures to shift the orientation of the capital market towards productive infrastructural ventures away from financial speculation by means of changes in the tax structure and prescribed asset ratios for pension funds and life assurance companies. On the basis of international experience, it is clear that successful economies have had effective state control of financial institutions. In this regard, the MERG (1993:17) suggested,

... the Reserve Bank should be accountable, subordinate to Ministry of Finance and subject to parliamentary scrutiny; and it should be fully state owned, ending its anomalous character as a formally private institution.

All these policy proposals puts the ANC well within the limits of internationally acceptable forms of redistribution. While some proposals may incur resistance from business and wealthy sectors of the population, they should not significantly weaken confidence if they are implemented in a transparent and predictable manner.

Wide as the gulf between big business and the ANC approach in February 1990 appeared, the rapidly shifting ground has encouraged economists of opposing camps to at least begin to speak the same language. The ANC has acknowledged that it cannot run an industrial economy by itself, and big business conceded that the apartheid legacy has to be addressed by affirmative action and other measures beyond the normal function of the free-market. Over the transition, there has been a remarkable convergence in economic policy perspectives (Bond, 1990:20).

On the ANC's part, this reflected its recognition and sensitivity to international trends and domestic business fears. Business interests, for its part, gradually came to accept that growth in itself would be incapable of ensuring the stability required for sustained development. In short, the debate on economic policy has seen a convergence which recognises the false dichotomy between growth and redistribution. The debate now coalesces around the assumptions of a mixed economy where all parties acknowledge the need to address poverty and equality as well as foster economic growth.

CHAPTER FIVE**EMERGING ANC POLICY PERSPECTIVES ON FOREIGN INVESTMENT**

It is widely acknowledged that many foreign governments and firms consider South Africa to be of strategic significance. South Africa is the most developed country in Africa and its current GDP is larger than that of sub-Saharan Africa combined. South Africa is also the largest export market in sub-Saharan Africa. Moreover, South Africa is likely to have considerable influence on the rest of the continent and particularly Southern Africa.

International business has much to gain from encouraging South Africa towards a free-market economy that is friendly to international business. Hence, attempts to woo South Africa should be seen both in the context of South Africa's strategic importance to international capital and the latter's emerging global trade and investment visions.

Meanwhile, ANC policy-makers have come to recognise that foreign direct investment (FDI) will play an important role in post-apartheid economic strategies. As FDI occurs mainly through the operations of transnational corporations (TNCs), policies aimed at attracting foreign investment to fulfil national socio-economic objectives have become vital.

This chapter places the development of ANC thinking on these issues within the context of the global foreign investment trends (section two) and the advantages and problems of FDI in the development process (section three). Section four examines the ANC's general attitudes towards foreign investment as gleaned from the statements and policy proposals of ANC-aligned academics, policy advisors and policy-makers.

The fifth section draws these perspectives together to spell out in greater detail the elements of an appropriate policy framework for foreign investment. Section six examines the regional implications of current trends in FDI as well as possible policy

responses, and the final section offers some concluding comments.

5.1 Global trends

As noted in chapter two, while there are several ways to understand the effects of FDI on development, two are easily distinguishable. First, the welfare economic approach posits the state as a benevolent guardian which seeks to ensure national development. Second, class-based analyses see the state as the lackey of capital (including foreign capital). In the latter view, the state is not in conflict with foreign capital as both support bourgeois class interests. In either case, as Helleiner (in Cooper, 1992:257) argues,

For economic analysts of development the key policy questions relate to the possibilities of more desirable developmental outcomes through alternate means of interacting with the present world, including the TNCs.

Thus, effective economic policy must be embedded in - and a product of - current realities and practices. Similarly, policies towards FDI cannot be formulated separately from national, global, political and economic trends.

In light of these general comments, it is important to recognise that FDI has become the major factor in global commerce in the 1990s. It rose from \$47 billion to \$139 billion annually between 1985 and 1988 - approximately three times faster than the expansion in the value of trade (Cowey and Aronsen, 1993:7). Although it constitutes only about 10 per cent of the value of trade flows in most years, FDI is increasingly shaping patterns of trade and international commerce.

Current government strategies increasingly see trade policy as being integrally linked to investment and competition policies - the so-called 'iron triangle' (Ismail, 1994:5). The growing portion of global trade at the intra-firm level reflects the close links between global trade and investment. In particular,

TNCs have become important agents of trade.

For example, foreign subsidiaries of US firms purchase almost a quarter of US exports and provide just less than a seventh of US imports (Ismail, 1994:5). When the accounts include imports and exports of foreign TNCs operating in the US, the share of total trade accounted for by intra-TNC trade reaches about 40 per cent. While foreign corporations account for about 15 to 17 per cent of national sales in Europe, they comprise one-quarter to one-third of national imports and exports in most of these countries. It has been estimated that local sales of US firms in the UK, Germany and France are on average five times greater than the level of US national exports.

Although Japan has been the fastest-expanding outward investor among the G5 (US, Japan, Germany, France and Britain), foreign investment inflows to Japan have been negligible. The investment imbalance between the US and Japan largely explains the trade gap between the two countries. About two-thirds of US imports from Japan occurs through trade between Japanese parent companies and their subsidiaries in the US. In terms of US exports to Japan, this figure is only 50 per cent and occurs mainly between Japanese subsidiaries in the US trading with their Japanese parent companies (Ismail, 1994:5).

Given these trends, it is important to sketch the pillars of an emerging 'market access regime' which increasingly impinge on national policies towards trade, investment and competition (Ismail, 1994). This new regime is primarily aimed at prying open global markets for trade and investment, particularly by TNCs. As it is seen as the most advantageous framework for their operations, TNC representatives have aggressively lobbied their respective governments to ensure its implementation, as shown in the Uruguay Round of the GATT.

It is in this context that most nations - particularly those in the developing world - are being forced to open up their domestic

markets; they now "have an obligation to make domestic policies subject to international review" (Ismail,1994:2). As a result, national economic regimes are currently being liberalised, deregulated and privatized. TNCs are focusing on the anti-trust policies and unfair competition practices of their trading partners. Such concerns are likely to lead to increased efforts to extend existing - or create new - national, regional and international anti-trust rules.

Similarly, TNCs are taking issue with government procurement practices. Although governments are the largest purchaser of goods and services, most governments prefer to buy from their own national firms even if the price is higher. In the TNC view, this provides local producers with unfair advantages which are unfair to consumers especially when foreign firms are able to provide cheaper and higher quality products. The implementation of the new market access regime will limit such practises.

Previously, free trade was considered to be central to the world economy and investment secondary. However, in the emerging global economy trade and investment are increasingly seen to be co-equals (Ismail,1994:4). In addition, the distinction between internationally produced goods and nationally produced services has begun to erode. It is within these emerging imperatives that it is possible to understand why the US government insisted that the liberalisation of services be made a key issue in the Uruguay Round of the GATT negotiations.

Indeed, FDI has been growing most rapidly in the service industry (Lawrence,1993:2). While services accounted for about a quarter of the total world stock of FDI at the beginning of the 1970s, by the late 1980s, its share had increased to almost 50 per cent. Investment opportunities for foreigners were once relatively limited in these sectors, but the recent trend towards liberalization in many developing countries has created huge investment opportunities in a range of service sectors including banking, communications, utilities and transportation (Lawrence,

1993:5).

While these are some important global trends with regard to investment and capital, at national level, policies targeting FDI cannot be designed independently of trade and industrial policy regimes (Zainuddin,1993:1). In shaping FDI flows to maximise its contribution to the economy, governments have some control over creating a conducive climate and implementing supportive policies to promote private investment in desired industry sectors. However, since the external supply factors of FDI are conditioned by the global economic environment and the business strategies of TNCs, matching demand and supply is a continuous challenge for policy-makers (Zainuddin,1993:16).

Within these parameters, current trends in FDI operations are towards various forms of joint ventures, licensing agreements, management and technical agreements, franchising and subcontracting. This 'unbundling' of FDI mirrors the growing sophistication of national industrial structures, intensifying global competition along with new dynamics linking national and global economies (Zainuddin,1993:19).

South Africa is unlikely to obtain any favours from TNCs who will aggressively pursue the new market access regime on the basis of more open trade, investment and competition policies. There is also a growing likelihood that foreign companies will raise complaints against any policy which gives domestic firms easier access to South African government contracts.

In addition, South Africa will be pressured to conform to stringent multilateral rules governing intellectual property rights, subsidies and tariffs. Measures that 'unfairly' promote exports, encourage local content requirements or protect local industry will come under close scrutiny and will be threatened with counter-measures and reprisals. By failing to comply, South African producers face the possible the threat of Section 301 of the US Trade Act. South Africa may be subjected to actions which

have become integral to the American global strategy of 'aggressive unilateralism' (Bhagwati, 1991).

In effect, this will imply further deregulation of the economy and privatization of parastatals. The US will seek to ensure that its TNCs are granted fair opportunity to tender for government procurement contracts and encourage new anti-trust and competition policies in South Africa. By promoting the 'unbundling' of conglomerates and the break-up of monopolies, an environment conducive for the development of small black businesses could well be fostered.

The danger remains that insistence on fair and equal treatment for TNCs in tendering for government contracts could limit the ability of the new government to develop black businesses if highly competitive foreign concerns monopolise emerging opportunities. There is the added danger, especially with regard to strategic industries, that liberalisation would make the economy more vulnerable to foreign ownership and control. In South Africa, lingering fears of foreign domination is not to be underestimated at a time when black business is emerging (Hirsch, 1992:40).

The US and EU's recent offer to South Africa to apply for Generalised System of Preferences (GSP) should also be seen as part of this overall strategy (Business Day, 10 February 1994). For example, while the US offer will enable South Africa products to gain preferential access to its markets, it will provide the US with leverage to shape South Africa's future economic policy. Indeed, the GSP has become a negotiating lever for the US rather than a development programme as it is subject to annual review and renegotiation on the basis of performance and compliance with the overall objectives of US-based TNCs.

It is worth noting that representatives of US TNCs have looked favourably on the ANC's policy statements as regards foreign investment (Ismail, 1994:13). More positively, the US Commerce

Department (1992) has argued that US investors must recognize that their operations in South Africa will not be 'business as usual'; US companies will have to address concerns of the black community.

5.2 Advantages and problems of foreign direct investment (FDI)

Lawrence (1993:24) observes that South Africa has not participated in current global trends with regard to trade and investment. The reasons for export stagnation and a declining capacity to attract foreign capital are both political and economic. The basic lesson teaches the cost of pursuing strategies which are incompatible with global economic trends.

Nonetheless, FDI should not be seen as a panacea because South Africa's economic crisis is not only a result of the lack of foreign funds. The economic crisis has to be resolved through a broad-ranging strategy which addresses the structural roots. Indeed, foreign capital will not flow into South Africa until the country shows both the intention and capacity to resolve its economic problems. The 'investment strike' in South Africa over the past decade has occurred because potential investors - both domestic and foreign - have had little confidence in economy (Hirsch, 1992:41-42).

It is important to recognise that while some nations - South Korea, for instance - developed rapidly without substantial FDI, its indirect effects ('learning by doing', technology changes, market linkages and increased competition) were vital. More generally, while FDI constitutes only a small part of capital formation in Asian economies, its impact has been large due to the dynamic effects arising from transfer technology, managerial expertise, market access and reinvested profits, strengthening links between trade and investment and fostering broad structural change throughout the economy (Zainuddin, 1993:7-8). Indeed, such spillover effects are generally more important than FDI's direct impact on employment, exports and government revenue. It is also

important to recognise that foreign firms can provide stiff competition to inefficient local oligopolies.

A summary of some of the advantages of foreign investment would include: technological and knowledge spinoffs; training and management expertise spinoffs; spinoff for local suppliers; direct and indirect employment creation; competition for local industries; international competitiveness; balance of payment impact in terms of capital inflows and exports (Gouws, 1992:35).

FDI is thus not solely a financial resource. South Africa has fallen behind in terms of leading technological capacity as a result of both its isolation and its poor educational system. Since TNCs develop and own a high proportion of new technology and given the fact that they are increasingly restricting its transfer, the only way to gain access to advanced technology may be to entice TNCs to South Africa (Hirsch, 1992:43).

While FDI is not a substitute for domestic capital formation or building indigenous industrial capacity, it can complement these two areas. The viability of developing countries' capital goods production is often constrained by rapid advances in technology in this sector. Thus, emphasis needs to be placed on the diffusion and acquisition of foreign technology (Cooper, 1992:279). In this regard, unbundling FDI is an efficient and rational response on the part of both TNCs (looking to minimise risk) and host countries (looking to acquire technology and maximise benefits).

Williamson (1993:4) argues that in the current international environment, rapid and sustained growth is almost without exception export-led. A crucial element for South Africa's long-term growth prospects is to increase exports and, in particular, those of higher value. The link between FDI and exports is two-fold. First, South Africa needs the capital and technology that foreign investors provide to produce more exportable (higher quality and more competitive) products. Second, with a growing proportion of global trade taking place at the intra-firm level,

TNCs provide an important channel for trade (Hirsch,1992:43). However, as export industries in South Africa tend to be labour intensive, it remains to be seen whether export promotion can be pursued in light of intense global competition (Cooper,1992:267).

Regulating TNCs is always difficult. There is no supranational body to regulate them and competing national legal frameworks weaken the leverage of governments. This suggests two issues for governments: the feasibility of controlling TNCs and the extent to which there is the political will to confront them should the need arise (Cooper,1992:259).

Technically it is difficult to govern TNCs as they have enormous scope for legal evasion of local controls. They are less responsive to monetary policy than local firms as they straddle national banking systems. They can circumvent fiscal policy through transfer pricing of various types to concentrate their profits in tax havens. A persistent area of concern is that TNCs often raise capital in the host country and crowds out local investors from domestic capital sources. In addition, there is widespread scepticism in regard to the labour practices of 'footloose' foreign firms (UNCTC,1992:4-5).

At a general level, barriers to FDI inflows include: lack of government accountability; inefficiency and obstructiveness; excessive state regulation; corruption; fiscal irresponsibility; limits on profit remittances; import controls and foreign exchange limitations; restrictive labour controls; high corporate tax; price and wage controls; few tax (and other) incentives; poor infrastructure; declining value of currency; shortage of domestic skilled manpower and restrictions on foreign managerial expertise; and supply shortages (Gouws,1992:36).

In South Africa's case, obstacles to FDI include: relatively high inflation (around 10%); high corporate taxes; no tax holidays; high duties on imported capital goods; complex exchange controls and dual currency; no guarantees against nationalisation; low

labour productivity; unstable labour relations (Gouws,1992:38).

South Africa's trade and tax regime has vast inter-sectoral differences, with manufacturing being more protected than mining and agriculture. Non-tariff barriers ensure the system of protection is opaque and difficult to measure (Cooper,1992:269). It also imposes severe bureaucratic burdens on the systems of regulation. Importers and exporters have to comply with an enormous range of bureaucratic requirements which also undermines the formulation of a consistent trade policy.

As elaborated in the previous chapter, in the 1960s and 70s, deficits on South Africa's current account of the balance of payments were largely offset by inflows of foreign capital, including short- and long-term loans. By the late-1970s and through the 1980s, inflows dwindled and the decline of gold and foreign reserves, a result of a net outflow of either short- or long-term capital, required a government policy of domestic demand contraction (deflation) to ensure a positive balance on the current account of the balance of payments. The problem was compounded further when foreign firms began to disinvest from South Africa in the mid-1980s (Jenkins,1985:17).

The level of foreign reserves has been a binding constraint on macroeconomic policy-making in South Africa and this has been reinforced by capital flight. The key issue is that (non-FDI) flows of capital, including capital flight, are driven chiefly by expectations of changes in the exchange rate rather than its level (Williamson,1993:11).

Thus, the fundamental objective is to avoid situations where the market comes to expect major depreciation and devaluation in terms of non-FDI flows of capital. A second reason for capital flight is when wealthy sectors of the population fear for the safety of their assets. Williamson (1993:12-13) argues that, in the future, capital outflows are less likely to arise from a desire of foreigners to divest than from a desire of wealthy

South Africans to build diversified portfolios to safeguard themselves against uncertainties in the country.

The need to reverse capital outflow is of paramount importance. In this respect, FDI is not as critical since it is a limited source of foreign capital at the best of times. It is more important for policy-makers to re-establish South Africa's creditworthiness to open up new foreign credit lines (Cooper, 1992:282).

Nevertheless, FDI can assist in driving up foreign exchange reserves to ease the balance of payments constraint. To achieve economic growth, South Africa will need a great deal of foreign exchange to purchase capital good inputs and FDI is one way (Hirsch, 1992:42). Since there is less flexibility in choice of FDI at the early stage of industrial development, the industries to be encouraged are those that best fit the country's resource profile and comparative advantage (Williamson, 1993:18).

South Africa does, however, possess several distinct advantages which appeal to foreign investors. These include: a (temporary) post-apartheid 'dividend' with the growing prospect of upward mobility for the majority of the population no longer constrained by apartheid; new programmes designed to improve education and training; the opening of world markets to its exports; access to international financial markets; regional peace; low foreign debt ratios; a relatively sophisticated consumer market; a relatively well-developed infrastructure; its position as the 'gateway' to Africa; its tourism potential; and generous mineral and resource endowment (Gouws, 1992:38).

Developing countries always face a high degree of uncertainty in sustaining FDI inflows given the changing needs of TNCs and their ability to plan globally. Many countries have, however, adopted pragmatic approaches in dealing with TNCs. They appear to be learning how to deal more effectively with TNCs by combining obligations, regulations and incentives to their advantage

(Cooper, 1992:253-254).

To take one example, it is now recognised that the issue of transfer pricing needs to be tackled primarily by the income tax authorities and through carefully formulated foreign exchange procedures. A wider response is to diversify sources of FDI and promote competition between foreign investors. In this light, South African policy-makers would be well-advised to entice FDI in the form of smaller TNCs, perhaps from other developing countries (Hirsch, 1992:40).

A paper prepared for the ANC alliance by the United Nations Centre on Transnational Corporations (UNCTC) summarises what should be the general approach towards TNCs.

Not many developing countries would now see the activities of TNCs as a threat.... Countries with particular resource endowments... have been able to take advantage of TNC investment to increase employment, exports and government revenues, to improve living standards, and even to enhance their own national economic power. In particular, TNC inward investment, correctly handled, has proven to be an effective way of enhancing domestic management capacity and technological skills... and there is certainly now a new and more pragmatic approach. This derives from the belief that developing countries can structure their relationships with transnational corporations in ways that will ensure that the overall benefits... are not outweighed by negative factors.

(UNCTC, 1992:4-5)

5.3 The ANC's attitude towards foreign investment

The aims of any democratic government are best achieved by a growing economy which in South Africa's case will be encouraged by removing the imbalances and costs of apartheid; by removing trade and financial sanctions imposed by the international community which served to limit economic growth; and by releasing the energies and initiative of all South Africans (Brown et al, 1994:43).

Growth will require an increase in investment while public sector

surpluses and government loans will help finance the state's broadening infrastructure challenges (Brown et al, 1994:43). Although most investment will be financed from domestic savings, foreign investment is clearly important. State policy will need to encourage FDI so long as it occurs on terms consistent with broad national development objectives.

Within ANC policy-making circles, the consensus is that foreign investment will be needed if the economy is going to attain the growth levels necessary to meet the needs of the people (McMenamin, 1992:250). As a result, economic development has been brought to the centre of the ANC's international relations. The ANC is keenly conscious that South Africa's long-term security and well-being is linked to economic growth. A central focus of foreign policy will be South Africa's re-insertion into the global economy. Domestic policy is therefore constrained by these imperatives and the government cannot embark on measures that will undermine international or local business confidence, nor can it excessively flout current international economic convention and trends. In short, trade and foreign investment issues have become a central focus of ANC foreign relations (Financial Mail, 29 October 1993).

The debate within the democratic alliance was galvanised primarily by the ending of international sanctions. As sanctions unravelled, the ANC and its partners realised the need to re-think their attitude towards foreign investment (COSATU, 1991:12). In this context, a detailed policy perspective towards foreign investment began to emerge from within the ranks of the alliance.

Although South Africa has abundant natural resources and human potential, it was recognised that FDI will be needed to i) augment domestic savings, provided the return on investment is greater than its servicing costs; ii) introduce state-of-the-art technology; iii) provide managerial skills; and iv) facilitate access to foreign markets. Foreign investors would also be encouraged to invest in activities which increase employment and

develop local technological capacity (UNCTC,1992:2).

The ANC can be expected to encourage FDI in accordance with its goal of promoting growth and development. It has recognised that attracting foreign investment requires establishing a climate of political stability and certainty, along with transparent and consistent economic policies. Also, it has accepted that FDI should take place within guidelines applicable to both foreign and local business.

The ANC has expressed its desire to establish a social responsibility code for foreign companies. This might include, for example, a commitment to skills development and training. However, it acknowledged that the code should be drawn up on the basis of voluntary agreements so as not to scare-off investors (Financial Mail, 29 October 1993).

The ANC has clearly stated its commitment to fiscal discipline and control over budget deficits. It supports the creation an environment friendly to foreign investment and recognises that the best guarantee for foreign investors relates to a reformulated and transparent tax regime, macroeconomic balance and the free repatriation of dividends (Financial Mail, 3 April 1992).

While FDI will be encouraged, foreign firms are expected to conform to national norms and laws. In other words, foreign investors will not be able to plead for cheap labour or engage in practices that do not serve the interests of the people. Similarly, foreign financial institutions, like the IMF and the World Bank, would be expected to respect the integrity of the domestic policy which aims at broad based socio-economic development (Turok in Work In Progress #83, July-August 1992).

The ANC's general policy towards foreign investment is contained in several documents. Its May 1991 draft resolution on policy towards foreign investment reads:

The ANC would encourage foreign investment on terms consistent with its developmental goals. Foreign investors will be encouraged to invest in activities which lead to increased employment and the development of local technological capacity and capability. A law on foreign investment - 'an investment code' - would be needed to govern the rights and obligations of foreign investors. This would oblige foreign investors:

- * to follow labour practices acceptable to trade unions and compatible with the broad democratic principles of society at large;
- * to cooperate with government in achieving developmental goals;
- * to operate in ways not detrimental to the environment;
- * to reinvest part of their profits to promote continuing growth.

One year later, in May 1992, the ANC issued a more comprehensive statement on its economic policies. With regard to foreign investment, the ANC's 'Economic Policy Guidelines for A Democratic South Africa' reads:

In a democratic South Africa, the ANC will welcome foreign investment in accordance with our objectives for growth and development, and will adopt an open approach to the entry of foreign investment. The most important way to promote foreign investment is to establish a climate of political stability, economic growth and transparent, consistent economic policies.

The principle of national treatment will apply to foreign investors. They will enjoy the same treatment as domestic investors and will be obliged to abide by South African laws. Subject to regulations administered by the South African Reserve Bank, foreign investors will have access to foreign exchange for the purpose of remitting after-tax profits and debt service on approved foreign loans, purchasing inputs and repatriating the proceeds on the sale of national assets.

Departures from national treatment may include limitations on domestic borrowing or on foreign ownership in strategic areas such as land and national resources. Foreign investments that meet defined national growth and development objectives may enjoy specific contractual arrangements.

The ANC will ensure that investments abroad by South African companies function, not as capital flight, but to boost our competitiveness and benefit the entire economy.

In December 1993, the ANC-sponsored Reconstruction and Development Programme (RDP, 1993:40) again reiterated the democratic movement's basic approach to foreign investment, but in the following manner:

Stable, consistent and predictable policies as well as a dynamic economy should create a climate conducive to foreign investment.

The democratic government must ensure national treatment of foreign investors. They should abide by our laws, and obtain the advantages available to all investors. The democratic government must develop policies to ensure that foreign investment creates as much employment, technological capacity and real knowledge transfer as possible.

5.4 Towards a policy framework for FDI

South Africa needs foreign investment in so far as it can contribute to creating employment and improving the quality of life of the population as a whole. The two fundamental conditions for attracting FDI are investor confidence and profitability. These, in turn, are predicated on an atmosphere of political stability and government economic policies that are clear, consistent and transparent.

Other conditions which attract FDI may be conceived in terms of 'internationally competitive risk-return ratios' (Gouws, 1992:37). These would include: a market and outward orientation; the protection of property; economic and financial stability; welcoming attitude to FDI; a favourable tax environment which is and transparent and predictable; a regulatory and legal environment which provides clarity; the ability to repatriate profits and capital; developed infrastructure; and growing markets.

Generally, the macroeconomic environment and policies towards industry are more important than those designed specifically to attract foreign capital. Policies to attract FDI must be seen as a subset of broader policies aimed at promoting industrialisation (Cooper, 1992:252). An appropriate framework should therefore incorporate general industrial policies and specific measures aimed directly at foreign investment (Zainuddin, 1993:11). At the macroeconomic level, policies should promote sound monetary and fiscal management, a competitive exchange rate and investment in infrastructure and human skills.

Unless and until a viable economic framework is in place, no

amount of political acceptability will attract FDI. Macroeconomic balance is a basic condition for attracting TNCs and ensuring broadly based economic growth. Achieving macroeconomic balance - that is, a stable financial framework which avoids unmanageable budgets and intractable balance of payment deficits - is critical since in its absence no investor will have confidence that exporting will remain profitable for long enough to make investment in exporting industries worthwhile (Williamson, 1993:4). Policies that encourage an efficient allocation of resources especially in regard to regulating trade, are also vital.

TNCs regard market size, growth potential and the availability of infrastructural facilities as important variables in their investment decisions. They also require accessible foreign (regional) markets, suitable factors of production (willing capital and labour) and supportive government policies in addition to a competitive exchange rate and a liberal foreign trade regime.

Nevertheless, with many countries competing for FDI, liberal policies may be insufficient. Active government support in the areas of industrial policy, incentives and programmes such as industrial estates, free trade zones and investment coordination centres or promotion boards may also be needed in designing an attractive package for FDI.

Although the policy environment plays an important role in enticing TNCs, the importance of infrastructural facilities and the availability of skilled manpower is increasing as most countries are adopting liberal investment policies to compete for FDI (Zainuddin, 1993:17). While it is difficult to manage technology transfer, marketing and managerial expertise, economies that do not invest sufficiently in capacity-building such as human resource development, research and development (R&D), institutional development and infrastructural development, will limit their ability to harness the benefits of FDI

(Zainuddin, 1993:18).

Thus, for technology-based industries, the provision of efficient infrastructure and the availability of skilled manpower at reasonable cost are necessary. So, while FDI is important in providing access to new technology, active state policy will also play a critical role in terms of providing scientific infrastructure support and granting the private sector incentives and support for technological and capital goods sector development.

In designing an attractive policy package for TNCs, Zainuddin (1992:17) suggests it is better to remove disincentives rather than provide additional incentives. These would involve removing excessive equity conditions and bureaucratic red tape. The reduction of administrative and regulatory barriers, however, should not undermine other objectives such as, for example, labour or environmental standards. As far as industrial and trade policy is concerned, the new government will need to simplify the existing tax structure and produce a consistent tariff policy.

Incentives which may be offered to entice TNCs could include a combination of tax concessions, generous depreciation allowances, tariff protection and various subsidies (Cooper, 1992:254). In general, however, fiscal concessions - tax holidays, accelerated depreciation, unlimited loss carry forward, uplift on capital allowances and subsidies - are not efficient ways of attracting FDI and should be avoided where possible. Fiscal incentives are not always significant because they are seen as transitory, and foreign firms are looking for permanent rather than temporary advantages (Cooper, 1992:268).

Where the broadly applicable tax rate is reasonable, across the board incentives may be counterproductive. Since taxation remains the most potent weapon for the host country and since taxes contribute towards local development, the government needs

a revenue base which is not continually eroded by piecemeal concessions (Brown *et al*, 1994:47). If other conditions are satisfactory, concessions may not be needed to attract FDI. Moreover, unilateral double taxation relief by many capital exporting countries often means that the practical effect of granting tax holidays for TNCs is pointless or uncertain.

Where there is a need for particular investment, in a particular region or sector, a tax concession can be made by amendment to existing laws which then apply to local investors as well. One way to improve the benefits from FDI may be to increase non-resident taxes or introduce specific taxes on non-productive speculative financial or property investment. Another way is to encourage joint ventures by imposing domestic ownership requirements (Cooper, 1992:255).

In any case, structuring incentives should be based on performance of investment projects, rather than the size of the capital investment. Performance criteria includes those relating to output growth, exports, employment creation, R&D expenditures, human resource development and domestic content.

It is also important to formulate policies that eliminate the bias against local investors and small-scale projects. This point underpins a broader issue. In South Africa, it will be crucial to promote inter-industry linkages between large companies and small/medium scale enterprises (SMEs) as part of an overall strategy to foster emerging black business.

An investment policy will have to recognise the position of disadvantaged groups who will want to start their own businesses. They will require special support. An influx of foreign businesses could provide opportunities for black business through the creation of joint ventures.

Foreign investors should be encouraged to incorporate strategies to boost the position of black business through joint ventures

and partnerships of various kinds. Moreover, in the field of portfolio and other forms of indirect investment, policy must also direct resources to black business (Hirsch,1992:40).

At the same time, certain categories of people, such as professionals, technician or tradesmen specialising in those sectors underprivileged South Africans will be aspiring to, will need to be controlled. This should be done through well-thought out and administered immigration laws, rather than by imposing additional regulations on foreign companies.

ANC policy regarding affirmative action will impose certain obligations for foreign business and there will be new laws dealing with employment practices, housing, training, rights of women, access to land and the environment. Foreigners will be subject to these laws - as will domestic investors - and should not expect exemption or adopt positions of indifference (UNCTC, 1992:14).

The extensive concentration of economic power in South Africa has not fostered internationally competitive domestic firms (Brown et al,1994:44). Foreign firms can provide competition to South Africa's oligopolistic, highly protected and often inefficient industries. FDI is seen as playing a role in diffusing the present concentration of ownership in South African industry, in modernising production methods, in improving production methods, in improving competitiveness, and in providing opportunities for emerging African businesses and managers (UNCTC,1992:19).

An emerging consensus suggests that the key to sustainable growth is that it be export-led in order to avoid balance of payment difficulties, to assist in achieving an efficient allocation of resources and to absorb unemployed labour into productive employment. Similarly, it is recognised that FDI will benefit host nations which implement strategies aimed at export promotion rather than import substitution (Cooper,1992:265).

FDI should, therefore, be internationally competitive. It should not be attracted to a particular domestic market merely to take advantage of protective barriers as this will lead to net reduction in income for the recipient country. The way to safeguard the economy from such effects is to implement a sound trade policy with competitive exchange rates, lower effective protection, rather than attempting to regulate FDI too closely (Brown et al, 1994:44).

In the present competitive international climate, there is less flexibility for developing countries which lack the necessary human and infrastructural capital to design selective foreign investment policies aimed at particular industries. Selective targeting can be done for strategic industries through import-substitution policies. There is, however, a danger of fostering high-cost industries if protection continues indefinitely and the industry does not reach international competitiveness within the planned period (Zainuddin, 1993:17).

In South Africa's case, the economy needs to expand its non-traditional exports. This requires a competitive exchange rate to provide an incentive to invest for the export market (Williamson, 1993:1). A major determinant of the quantity of FDI that a country can attract is whether its costs make it an internationally competitive place to locate production. Other things being equal, a lower real exchange rate reduces costs making a country more attractive for investment. If a country pursues an exchange-rate policy supportive of export-led growth, it can expect to find itself experiencing an inflow of FDI, assuming other conditions are in place (Williamson, 1993:11).

It would be a mistake to direct exchange-rate policy primarily to manage the capital account, either to attract foreign investment or deter capital flight, rather than to pursue a strategy of export-led growth. Williamson (1993:2) argues that a strategy of export-led growth combined with prudent macroeconomic management is likely to yield capital inflows as

a by-product. In other words, capital inflows would be a spinoff of policies designed to meet the fundamental needs for rapid real growth of exports, output, and employment without jeopardising macroeconomic stability, rather than an objective in its own right.

In South Africa, investor confidence not only requires sound monetary and fiscal policies, but also a political solution that defuses the threat to personal security and property posed by continued violence. Additionally, it requires clarity on the issues of nationalisation and expropriation. Foreign investors need assurances on the security of their investment and access to foreign exchange.

Greater clarity could be achieved by formulating an investment code which sets out general attitudes towards FDI, mechanisms for monitoring FDI and guidelines on the repatriation of profits and payments of royalty fees (Cooper, 1992:284). A code could clarify views on nationalisation, expropriation, the protection of property rights, the transfer of profits and license fees etc.

The role of a code is two-fold. First, it indicates and publicises which categories of investment are to be favoured with special concessions and which are prohibited to foreigners. Second, it can serve to counteract specific disadvantages foreign investors encounter. In particular, a code could clarify the specific market and regulatory environments; assist the necessary applications for consent and licences; provide assurances on access to foreign exchange in the event of nationalisation or other dispute where they might feel discriminated against (UNCTC, 1992:22).

Although a code is useful to stimulating investment, it has limits. As outlined above, other factors (profitability, government economic policies and how it treats local investors) are more important. If these are in place, foreign firms will invest irrespective of whether a code exists or not.

It remains to be seen whether political stability will be sufficient to induce large-scale private FDI. Although there is a need for both capital and technology, these should be obtained from diverse sources, especially if TNCs are reluctant investors. As long as technology is available in the form of joint ventures and licensing agreements, the lack of FDI inflows may not be an insurmountable problem.

Moreover, providing there is access to global capital markets and official lending agencies, investment by TNCs may be superfluous. The major source of foreign capital is international bank finance. As the events of the 1980s demonstrated, access to foreign bank lending and to international agencies like the World Bank and the IMF is more crucial to the South African economy than investment by TNCs (Cooper, 1992:283).

Currently, capital flows have revived on a scale that in some cases is larger than anything seen during the height of the bank lending boom in the late 1970s (Krugman, 1993:1). The new wave of inflows is taking place independently of government borrowing or guarantees and are a mix of limited forms of FDI, larger flows of money into emerging stock markets and large amounts of bond purchases (Krugman, 1993:2). South Africa's economic profile seems to make it relatively well-placed to take advantage of the changed investor sentiment and aggressively re-enter global capital markets (Krugman, 1993:27).

Subject to special exceptions, all foreign investment would be welcome in South Africa (UNCTC, 1992:13). They would enjoy the same rights and face the same obligations as domestic investors. Foreign firms would have to live with the Reserve Bank regime as regards access to foreign exchange. Government should adopt an open policy with reservations in areas such as very small investments which could easily be carried out by locals, or in areas, for example, such as financial institutions, defence or in the media. Additionally, areas such as natural resources, fishing, petroleum, mining and forestry will require special

licences. In practice such licenses will not be granted except in return for a substantial commitment to exploration. These agreements would normally be subject for negotiations (UNCTC, 1992:14).

There should also be opportunities for investors bringing in more than (say) US\$1 million towards directly productive forms of activities to have such investment registered as Special Status Investments. Although these would obtain exceptional guarantees mainly in regard to the repatriation of foreign exchange, they may also be made subject to special obligations on the part of the investor (UNCTC, 1992:20).

Inward portfolio investment is also welcome since it tends to increase the resources available to finance industrial expansion and lead to diversification in the concentration of ownership. In general, however, this should not be granted any more favourable terms than local investors. There is one financial restriction for foreigners; that is, restrictions on local borrowing to ensure proper capitalization as stipulated by the Reserve Bank and explained in a foreign investment code (Brown *et al*, 1994:46).

Foreign investors have special requirements which relate mainly to access to foreign exchange to pay for imports (inputs); the principal sum and interests due; license fees and royalties for technology subject to local legislation dealing with transfer of technology; transfer after tax profits; and, if nationalised or sold to locals, to repatriate proceeds. They also need assurance of security of title, guarantees that they will not be expropriated or, if they are, they will be compensated on the basis of findings by international arbitration (UNCTC, 1992:15).

In short, a future South African government should generally be neutral in any measures intended to induce investment, foreign or domestic. Where tax legislation (or specific government expenditures) do favour one category of investor over another, that preference should be deliberately exercised either in favour of particular types of investment that are

considered specially desirable, or in favour of, particular under-developed regions, or in favour of those South African citizens who have hitherto been disadvantaged and who will need special measures to assist them to become owners, either directly or indirectly, of a significantly larger proportion of the country's productive assets.

(Brown et al, 1994:48)

5.5 Regional Implications

Although the local South African market is small in global terms, fierce competition for foreign markets is likely to lead to inflows of FDI, in general, and joint ventures, in particular. The sustainability of FDI inflows depends to a great extent on a liberal global trading environment. Increased protectionist measures in the developed countries and the emergence of trading blocs threaten to restrict trade and investment flows to developing countries. In this context, policies aimed at promoting regional cooperation and increasing South-South trade and investment become more urgent and need to be explored (Zainuddin, 1993:20).

Several considerations compel such investigations. To begin with, traditional theories of national comparative advantage have been transformed as TNCs extend and deepen their global manufacturing operations. TNCs in Japan, Europe and North America have begun to plan in terms of broader regional bases and on the basis of a particular region's complementary resources. Regional economic blocs provide larger consumer markets and encourage scale economies that support the global efforts of TNCs.

In addition, individual countries may be assigned worldwide mandates to develop specialized products as the regions in which they are located become increasingly integrated. In short, TNCs have a strategic interest in regional economic integration as a complement to global integration. TNCs are now more than ever developing worldwide strategies on a regional basis as part of the drive to become globally competitive. Alan Hirsch (1992:46)

observes that the most important factors for regional investment are the size of the market, rate of growth, political and social economic stability and predictability.

In this respect, Southern Africa may provide a useful base for such strategies. US government officials support current integration efforts in Southern Africa but it is clear that the US would follow the approach adopted by the IMF and the World Bank. This means that the US will support the regional integration efforts of countries in Southern Africa so long as it provides a base for US TNCs competing at a global level. The IMF and the World Bank advocate an overall reduction of tariffs both between countries within the region and between the individual countries and the rest of the world.

Most countries within the Southern African region already have an open policy towards foreign investment. As part of the process towards regional integration and development, the Southern African Development Community (SADC) should draw up a regional investment code which provides 'special status' towards investments promoting regional integration and development. When TNCs are attracted to certain regional markets, tax incentives can influence locational decisions. Generally, however, fiscal incentives are of little significance except when one country is competing with another within a common market.

The ANC has committed itself to a process which will deepen regional cooperation and integration on terms which are mutually beneficial for the countries of Southern Africa. Its approach recognises current imbalances and inequities and expresses a commitment to have them redressed.

In this context, it will become increasingly urgent to consider a harmonisation of regional foreign investment policies and codes. If this is not done, individual nations will compete against each other and undercut potential collective gains. It may also result in a process whereby existing imbalances and

inequalities are more deeply entrenched. The manner in which regional cooperation in Southern Africa is approached and accomplished, and the way the region relates to the external world will have a significant bearing on its prospects for attracting FDI.

5.6 Concluding comments

In order to encourage socially responsible investment, policy should direct TNCs to areas that support productive investment in labour intensive industries, certain strategic industries or towards underdeveloped regions of the country. These could be regarded as Special Status Investments and accorded extraordinary concessions.

Despite dangers, emerging trends provide some opportunities for ANC policy-makers. The strategic objective of the ANC should be both to encourage and guide FDI. Investors that contribute towards the reconstruction and development programme (RDP) should be granted special concessions. For that, the ANC-led government needs to clearly identify projects which contribute to regenerating the economy, provide jobs and address the basic needs of South Africans.

Foreign investors are keen to forge such alliances as part of their overall strategy to gain greater access to both foreign markets and government contracts. Such alliances provide foreign investors with greater security against negative government action. Investors who are eager to take advantage of government procurement contracts should be encouraged to form joint ventures with emerging black businesses. These have the potential to enhance local capability by transferring technology, skills as well as provide greater access to export markets. It is within this general approach that the government should aim to influence the package of policies foreign investors intend to deliver as part of the contribution towards the development of a democratic South Africa.

CHAPTER SIXSUMMARY AND CONCLUSION

This final chapter summarises the main findings of the study, offers some conclusions and suggests areas where further research is required to refine a comprehensive ANC inward foreign investment policy. Several assumptions have underpinned this study but, essentially, it is premised on the view that while the ANC's foreign investment policy appears as a narrow economic issue, its formulation is being shaped by a range of global, national, political, ideological and socio-economic factors.

It is important to recognise that these factors are linked and interact dynamically. In this light, it is futile to seek single-factor explanations for the emergence of the ANC's foreign investment policy. At the theoretical level, therefore, the study employs an holistic, eclectic approach which seeks to identify the wide-ranging factors which have shaped the contours of that policy.

This study has argued that orthodox paradigms have proven incapable of accounting for the rapid changes in the world which are impacting on policy formulation in South Africa. Their focus is, in general, narrow, dogmatic and often impervious to logical or empirical criticism. In addition, they provide little guide to concrete policy formulation. The study eschews closed, mechanistic perspectives. It prefers to emphasise contingency, politics and praxis while recognising that structural transformation has a much slower pulse. It advocates theoretical and methodological pluralism which may lay the basis for a more dynamic, synthetic and sensitising approach. It heuristically employs approaches which recognise the durability and longevity of global capitalism, however distasteful the implications may be for socialists.

Simultaneously, it posits that despite the ascendancy of neo-liberal ideology worldwide, the free-market is not the panacea

to the varied problems of socio-economic development, particularly in developing countries. Essentially, this study attempts a more nuanced, realistic and practical political agenda and which takes into account both constraints and opportunities in the current conjuncture. At a national level, this acknowledges the benefits of the transition from authoritarian rule to democratic governance. That is not to say, however, that capitalist relations are entirely democratic or satisfactory, but accepts that, at present, a socialist agenda or revolution is utopian.

What is required is a global and national 'politics of engagement' which strives both to foster economic growth and meet the basic needs of people. Concrete policies are an outcome of, and constrained by, complex processes. These include changes in the balance of international and national political and economic power as well as the nature of bargaining and negotiations processes between powerful, socially constituted forces.

These considerations have been evident in South Africa during the transition period. That the country began its transformation through negotiations after February 1990 reflected the National Party's recognition that the South African conflict had reached an impasse or stalemate. The government was unable to govern effectively or legitimately, while the liberation movement was unable to overthrow the *status quo* militarily. With the decision to embark on a negotiated settlement, a variety of actors and social forces entered into the bargaining process to define the parameters of the new democratic order. Of paramount importance were the constitutional negotiations. Here, the study argued that once the ANC had engaged this terrain, the already tenuous possibility of a radical or socialist transformation receded further.

The ANC project does, however, go beyond the minimal objective of 'deracialising capitalism'. It has retained considerable scope to democratise society at large. It hinges on a social

democratic enterprise which recognises the need to draw in the competing claims and diverse needs of society, while maintaining a sensitivity to international conditions. While the strategy contains corporate and social compact solutions which do not fulfil orthodox revolutionary aspirations, it is envisioned that they will place the economy and society on a more realistic, defensible and sustainable trajectory.

The ANC has had to reconcile the legitimate aspirations of its constituency with what may be termed 'white' fears. To a great extent, the negotiations in the transition reflected this dilemma. The threat of a backlash from the state security forces and the need to win over the civil service were, therefore, key considerations that had to be confronted squarely. These imperatives contributed to setting the parameters of policy outcomes and shaping how those policies would be formulated and implemented.

Additionally, the threat of the veto power of domestic and international business confidence with regard to the direction economic policy has had to be absorbed by ANC policy-makers. This quandary rests on the open nature of the South African economy. In this context, it would be disastrous to introduce strategies of delinking or autarchy. The extent to which sanctions and the international boycott campaign was successful, exposed the vulnerability of the South African economy; it cannot be cut off from international markets and sources of capital and finance.

Post-apartheid economic policy will inevitably be shaped by the global environment. With no socialist rear base to establish supportive alliances, there are few alternatives to dealing with the West on its terms. International experience shows that countries which have, in recent years, 'taken off' have been those which participated astutely in the global system. They have geared their policies towards taking full advantage of the opportunities that the system throws up. The new South African

state, as all states, stands at the interface of the national and global dynamics. It must remain sensitive and balance their sometimes competing and sometimes complementary demands.

Given the ascendancy of neo-liberalism, there is a need to fine-tune policies in a manner which not only recognises constraints but also seeks to take advantage of emerging political and economic space. Indeed, while autarchy and disengagement from the global economy is an increasingly difficult prospect, the trend towards globalisation has not rendered economic strategies geared towards national development entirely ineffectual or obsolete. What is required is a strategy which attempts to balance domestic imperatives with a clear and realistic understanding of current global dynamics and trends.

This conception is particularly relevant in dealing with International Monetary Fund and the World Bank, in addition to responding to the implications of the recently concluded Uruguay Round of the GATT negotiations. Once again the inescapable conclusion is that despite the unequal structure of the global system, it is neither monolithic nor immutable. Gains can be carved out of the system through astute political practices and viable economic strategies.

Similarly, perspectives on foreign investment are converging around a non-ideological middle ground of practical engagement by national governments. These recognise both the advantages and problems of foreign capital in economic development and seek to formulate appropriate state policy responses which tilt the cost-benefit mix in favour of the host country. It is critical to appreciate the growing importance of FDI in fostering economic growth and industrial development. Not only is FDI growing more rapidly than trade, but it is also shaping the patterns of trade as a growing portion of world trade occurs as the intra-firm (TNC) level.

The ANC's emergent foreign investment policy perspectives

recognise the advantages of foreign direct investment and the critical role TNCs can play in fostering economic development. In addition to direct investment in productive enterprises, transnational corporations - which in today's world are the main agents of foreign investment - provide access to global markets and leading technology. The study has shown that the emergent ANC policy is essentially an 'open door' one with the proviso that foreign investors comply with domestic law. In addition, foreign investors are encouraged to form joint ventures with emerging black capital and to enter into agreements to foster training, skills development and affirmative action. }

The success of this policy will require a concerted national effort to improve the image of the country to foreign investors as an attractive place to do business. This will involve developing strategies directed at promoting investment in specific sectors of industry by marketing the advantages of the South African economy to specific TNCs. When foreign investment contributes towards nationally-defined strategic industrial and development objectives, it may be granted extraordinary concessions.

An urgent area for further research, therefore, will be to identify those strategic industries and sectors to be targeted and which will require exceptional concessions. Indeed, the new government must make these known to potential investors. As argued, the targeting strategy will be shaped by the country's general developmental goals and embedded in its broad industrial policy. In short, the policy aims to promote and guide foreign direct investment.

Further research should attempt to examine comparative evidence from other countries which have been successful at harnessing the benefits of FDI. Research should also seek ways of easing bureaucratic red tape for foreign investors through the creation of one-stop investment centres. It will need to explore the administrative and institutional arrangements which not only

guide and monitor foreign investment but also serve as information centres for foreigners.

Another important priority will be the need to develop and consolidate a regional perspective on foreign investment. This is premised on the view that South Africa's long-term security lies in cooperating with its neighbours towards regional economic development and security. South Africa cannot prosper or sustain its own development if the region continues to slip into deeper poverty and instability. South African policy-makers will need to collaborate with their neighbours in the subcontinent in formulating a common regional investment code and strategy. To do so will minimise the danger of individual countries within the region competing against each other for foreign investment. This will also assist in strengthening their collective bargaining leverage.

South African policy-makers will need to move fast to take advantage of the enormous international goodwill South Africa enjoys. This 'window of opportunity' will not stay open indefinitely. International governments have stated their admiration for the quality of South Africa's leadership in successfully completing the transition to democracy. For a range of moral and practical reasons, many foreign governments are now keen to see South Africa succeed in its economic transformation. South Africa is of strategic importance to the subcontinent and its successful democratic transition is one of the few bright sparks on the global, or at least African, scene as the end of century approaches. In addition, multilateral institutions are keen to present a showcase of success in Africa where their past policies have failed to reverse the marginalisation of the continent.

Foreign investment can contribute in many ways to revitalising this country's economy. But foreign investors should re-engage South Africa - and the region - in a manner which fosters equity as well as efficiency, economic growth as well as an equitable

(re)distribution of wealth. An uncontrolled expansion of economic links will have the effect of entrenching existing economic imbalances and inequities. This will have dire consequences for both South Africa and the region's long-term stability and security as poverty and inequality provide fertile breeding grounds for political and social instability.

Therefore, a concerted effort to redress historical imbalances in South Africa - and between South Africa and the region - should become central to foreign investor calculations. Clearly this will be of practical benefit to their interests. By contributing to a process of equitable economic development, which is the basis of peace and security, foreign investors can strengthen South Africa and the region in a way which makes their own markets and sources of raw materials more secure.

For South African policy-makers, the recently completed political transition is merely the prelude to the economic restructuring necessary to address the manifold legacies of apartheid. The government will be hard-pressed to formulate and implement viable, sustainable policies which foster economic growth, social development and redistribution. As this study has shown, foreign capital has a key role to play. Thus, the new government will need to implement policies and incentives to direct foreign investment in ways that are compatible with its overall objectives both in South Africa and across the subcontinent. It remains a daunting challenge.

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